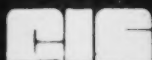


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**OVERSIGHT ON THE SMALL BUSINESS ADMINISTRATION'S
SMALL BUSINESS DEVELOPMENT CENTER
PROGRAM**

HEARING
BEFORE THE
COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE
ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

OVERSIGHT ON THE SMALL BUSINESS ADMINISTRATION'S SMALL
BUSINESS DEVELOPMENT CENTER PROGRAM

OCTOBER 15, 1987



Printed for the use of the Committee on Small Business

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OVERSIGHT ON THE SMALL BUSINESS ADMINISTRATION'S SMALL BUSINESS DEVELOPMENT CENTER PROGRAM

THURSDAY, OCTOBER 15, 1987

U.S. SENATE,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to notice, at 10:05 a.m. in room 428A, Russell Senate Office Building, Hon. Dale Bumpers, Chairman, presiding.

STATEMENT OF HON. DALE BUMPERS, A U.S. SENATOR FROM THE STATE OF ARKANSAS

The CHAIRMAN. The Committee will come to order.

I am going to forego my opening statement. It is a dynamite statement. I do not know why I would do that, but in the interest of time I will insert it in the record. Everybody here understands the nature of the hearing and the reason they are being called. This is an oversight hearing of the Small Business Development Center Program which began back in 1976 and has grown by leaps and bounds.

We have a good lineup of witnesses this morning who will give us their experiences, both good and bad.

Let me just conclude by saying that I will, after these hearings, ask the GAO to do a study of this program and report back to the Committee at the earliest possible time because I would really like to get an unbiased report on the success or failure or somewhere in between of this program.

[The prepared statement of Senator Bumpers follows:]

Statement of Senator Dale Bumpers
October 15, 1987

Senator Weicker and I have scheduled this oversight hearing today to review the progress of the SBA's Small Business Development Center program since this Committee last held hearings on the SBDC program in 1983. The program has grown tremendously in size as well as diversity since that time, and we look forward to hearing about the types of activities and services provided by the SBDC's for small businesses across the country.

The SBDC program began as a pilot program instituted by the SBA in 1976. At that time, eight SBDC's were set up in universities in seven states, for the purpose of improving the management skills of small business people in the locality surrounding the center. Then-Chairman of the Senate Small Business Committee Gaylord Nelson focused the attention of this Committee on the successful activities of the pilot SBDC's, and encouraged the Committee to support a bill which he introduced to legislatively authorize the SBDC program. That bill, the Small Business Development Center Act, introduced first in 1977 and eventually enacted July 2, 1980, as Public Law 96-302, called for a four-year program to be funded at \$22 million by 1984. By 1983, when this Committee last held hearings on the SBDC program, there were 27 SBDC's affiliated with more than 100 colleges and universities in 27 states. The program was funded at \$35 million in FY 87.

In 1983, Senators Weicker and Nunn introduced legislation to permanently authorize the SBDC program. The bill was enacted in

1984 after a conference with the House Committee and called for a sunset date of 1990. The 1984 Act requires an equal match of federal funds, with 50% of the state matching money to be in cash rather than in-kind contributions; on-site SBDC evaluation by peer review; and a full-time SBDC staff director.

The intent of Congress, as noted in both statutory language and legislative history of the 1980 SBDC Act, was to allow for flexibility in the program, encouraging each Center to tailor its services to the actual needs of its small business clients in that state or region. As a result, the SBDC program has grown both in size and in diversity. Today, there are 49 SBDC's in 43 states, offering a wide variety of both management assistance and business development services to the small business community. We expect to hear from witnesses today as to the progress of the SBDC from both businesses' and the Administrations' perspectives in generating new growth in the small business community.

Although the SBDC program has grown by leaps and bounds since its meager beginnings in 1976, the Committee is concerned that SBA may have lost sight of a major objective of the program, to create a partnership between the agency and the SBDC based on a Cooperative Agreement which governs the activities of both parties. In P.L. 98-395, Congress defined this cooperative spirit which was to be the basis of the program: "The SBDC Program shall be under the general management and oversight of the Administration, but with the recognition that a partnership exists...between the Administration and the applicant for delivery of assistance to the small business community. Services shall be provided pursuant to a negotiated Cooperative Agreement with full participation of both parties."

The lack of a cooperative spirit on the part of SBA can be inferred from the regulations proposed by the agency to govern the operation of the SBDC program. Last fall, SBA's

General Counsel drafted and published the regulations for comment even though the regulations were not called for by the SBDC's and were advised against by the Deputy Associate Administrator for Business Development in charge of the SBDC program. SBA received a total of 227 comment letters, most of which essentially stated that the regulations neglected the cooperative agreement/partnership aspect of the SBDC/SBA relationship as set forth in the authorizing legislation, and also conflicted with long-standing OMB circulars that govern dealings between universities and federal agencies. Chairman LaFalce of the House Small Business Committee advised SBA to completely rewrite the regulations, and Senator Weicker and I advised the agency to reconsider the regulations in a more cooperative spirit.

SBA has since redrafted major portions of the regulations, which will be published in the Federal Register again this week, calling for a 30-day comment period. Despite the revisions made, several members of this committee and other Senators not on the Committee have written to me expressing their concern that the regulations are drafted in such a way as to give SBA control over the program and ignoring the partnership that now exists between the agency and the SBDC's.

I ask unanimous consent that letters from Senators Cohen, Pell, Kerry, Rockefeller and Burdick regarding the regulations be inserted in the Record.

I intend to question the SBA about its intent in going forward with these regulations in light of the adverse comments received from the SBDC's. One of the purposes behind the 1984 reauthorization legislation was to decentralize the SBDC program to allow the SBDC director to take care of the day-to-day management of the SBDC, thus emphasizing the partnership idea behind the program. Regulations are legally valid only to the

extent that they are consistent with the intent of Congress expressed in the Act.

Finally, I intend to ask the General Accounting Office to conduct a thorough study of the effectiveness of the SBDC program in order to identify its strengths and weaknesses from an unbiased standpoint. Such a report will be enormously helpful to both the Congress and the Administration in future decisions about funding for Small Business Development Centers.

I look forward to hearing from all of our distinguished witnesses today, and I hope this review will shed some light on the current status and future of the SBDC program.

The CHAIRMAN. Senator Levin, do you have an opening statement?

STATEMENT OF HON. CARL LEVIN, A U.S. SENATOR FROM THE STATE OF MICHIGAN

Senator LEVIN. Mr. Chairman, first let me commend you for having these hearings. This is a very important program. We have had some great success in Michigan with this program.

One of the witnesses whom you have referred to this morning is Norm Schlafmann. He runs the center in Michigan. We have seen that the number of small businesses receiving counseling has grown tremendously from 400 just 4 years ago to about 4,500 last year.

We have seen training programs grow tremendously with very good success, and Mr. Schlafmann will be giving the Committee some of the numbers in terms of the businesses retained and the jobs created as a result of this program.

Mr. Chairman, I am not able to stay this morning because I have another hearing I must go to, but I know you will give a warm welcome to Norm Schlafmann who testifies in one of the later panels. His testimony is important and, as you indicated, we will be looking at how the administration handles the regulations which are proposed to be published in this area to make sure that they give full scope to a program which at least in Michigan has had some very significant success.

The CHAIRMAN. Thank you, Senator Levin.

Senator Weicker, do you have a statement you want to make?

STATEMENT OF HON. LOWELL WEICKER, JR., A U.S. SENATOR FROM THE STATE OF CONNECTICUT

Senator WEICKER. Thank you for holding this oversight hearing on the Small Business Development Center [SBDC] Program. Since the Congress passed legislation extending this program until 1990, the SBDC's have become a principal network for delivering management and technical assistance to small business.

In fiscal year 1986, Congress appropriated \$35 million for this program. This amount has been more than matched by the States. Thus, over \$80 million of the Federal, State and private sector resources have been committed to provide a wide array of small business assistance programs, ranging from technology transfer and export assistance to basic accounting and business planning.

The strength of this program lies in the partnership between the Federal Government and the State applicant which, in most cases, are universities. For this partnership to work, there must be cooperation and the system must be flexible to allow each program to be tailored to the unique needs of the small businesses in each State.

Today the Committee will hear testimony outlining some of the innovative and exciting small business assistance programs being conducted throughout the country.

I am concerned that SBA's regulatory efforts to control this program may have the effect of stifling its growth and diversity. Several of the Senators on this Committee are former Governors who

are very sensitive to the issue of the degree of Federal redtape that should be involved in any matching grant program. According to SBA, the State/Federal match ratio is 1.4 to 1. Thus, the States are giving more to the program than the Federal Government. And, this is how Congress envisioned the program would grow.

Seed dollars from SBA would stimulate funding from non-Federal sources. But, this will not continue to occur if SBA begins to dictate policy and establish a national agenda that States must follow. States must have a say on how the dollars would be spent. This is best achieved through a good-faith negotiation process. In short, SBA is responsible to manage this program not control it.

I have to say in this regard that I received a rather specific letter from the president of the University of Connecticut and his observations as to how this excessive Federal control potentially poses a threat to the program.

I might add, it would seem to me totally contrary to the philosophical inclinations of this administration to have the Federal Government in effect put a heavy hand on the program at the State level.

So I look forward to the testimony and for reviewing SBA's rationale as to why they pursued this particular regulatory course.

The CHAIRMAN. Thank you.

Senator Bond, do you have an opening statement?

**STATEMENT OF HON. CHRISTOPHER S. BOND, A U.S. SENATOR
FROM THE STATE OF MISSOURI**

Senator BOND. Thank you very much, Mr. Chairman. I am very pleased that this Committee is holding the oversight hearing on the SBDC Program.

During my second term as Governor when this program was established, I was a very strong supporter of it. I feel the program has been a very successful one in my State, going from 4 to 15 centers in my State in 5 years and counseling approximately 2,600 small businesses annually.

I believe that SBDCs provide a wide variety of essential services to the small business community which are extremely important. They help them to locate additional capital, to show companies how new technology can expand and improve their operations, and they are willing to fashion their services to fit the needs of their particular business claims. It is this flexibility and willingness to adapt that makes the SBDCs a valuable tool, in my judgment.

One of the witnesses today is director of the SBDC Program in Missouri, Fred Hale. I am glad that he could be with us today, and I am certainly going to be interested to hear his assessment of how the program is operating. I am looking forward to hearing SBA's evaluation of the program both in Missouri and nationwide.

Thank you, Mr. Chairman.

[The prepared statement of Senator Bond follows:]

SENATOR BOND

STATEMENT- SMALL BUSINESS COMMITTEE OVERSIGHT HEARING ON THE SMALL
BUSINESS DEVELOPMENT PROGRAM 10/15/87

THANK YOU, MR. CHAIRMAN.

I AM PLEASED THAT THE COMMITTEE IS HOLDING THIS OVERSIGHT HEARING ON THE SBDC PROGRAM. THE PROGRAM WAS ESTABLISHED DURING MY SECOND TERM AS GOVERNOR AND I BECAME A STRONG SUPPORTER OF IT. THE PROGRAM HAS BEEN A VERY SUCCESSFUL ONE IN MY STATE, GROWING FROM 4 TO 18 CENTERS IN 5 YEARS AND COUNSELING APPROXIMATELY 2600 SMALL BUSINESSES ANNUALLY.

SBDC'S PROVIDE A WIDE VARIETY OF ESSENTIAL SERVICES TO THE SMALL BUSINESS COMMUNITY, FROM HELPING TO LOCATE ADDITIONAL CAPITAL TO SHOWING COMPANIES HOW NEW TECHNOLOGY CAN IMPROVE AND EXPAND THEIR OPERATIONS. THEY ARE FLEXIBLE ENTITIES AND ARE WILLING TO FASHION THEIR SERVICES TO FIT THE NEEDS OF THEIR PARTICULAR BUSINESS COMMUNITIES. IT IS THIS FLEXIBILITY AND WILLINGNESS TO ADAPT TO THEIR CLIENTS' NEEDS THAT MAKES SBDC'S SUCH A VALUABLE TOOL FOR SMALL BUSINESSES.

ONE OF THE WITNESSES IS THE DIRECTOR OF THE SBDC PROGRAM IN MISSOURI - FRED HALE. I AM GLAD THAT HE COULD BE WITH US TODAY AND I AM INTERESTED TO HEAR HIS ASSESSMENT OF HOW THE PROGRAM IS CURRENTLY OPERATING IN OUR STATE. I AM ALSO LOOKING FORWARD TO HEARING SBA'S EVALUATION OF THE PROGRAM, BOTH IN MISSOURI AND NATIONWIDE.

THANK YOU, MR. CHAIRMAN.



UNITED STATES GOVERNMENT
SMALL BUSINESS ADMINISTRATION
REGIONAL OFFICE
KANSAS CITY, MISSOURI 64106

*Received
May 11 1987*

Date: May 4, 1987

Reply to

Attn of: ARA/BD

Subject: Concerns Regarding the Administration of the Mo-SBDC

To: Kathryn Frazier
MO/CO Project Officer Mo-SBDC
St. Louis District Office

This is to confirm our conversations of April 9 and telephone conversation of April 16 wherein I expressed my concerns about overall administration of, and specific items of concern regarding the Missouri SBDC.

The first item we must address is the replacement of the state director. I insist that you notify the Dean and the President of St. Louis University that perhaps the present state director could be used in another position within the university but that he (the state director) is not performing, has not performed, and probably will not perform in a satisfactory manner. This is intended to be a cooperative agreement, and cooperative effort to bring service to our constituency, the small business community. The state director has demonstrated everything but cooperation, as is pointed out so emphatically by your own quarterly monitoring statement.

The second item we must address is replacing the subcenter director at Rockhurst College. There is no use in prolonging the agony of the Kansas City District office attempting to work with a subcenter director who refuses to make any visible effort to cooperate and make this a team effort.

Thirdly, it appears that the Mo-SBDC proposal for FY '88 is once again a rambling editorial rather than a valid proposal of some substance and meaning. A proposal must conform to the program announcement, address our priorities, and, once again, deliver the best service possible to the small business community.

I want you to emphasize to the Dean and the President of St. Louis University that we are quite serious, we expect excellence from this, the flagship of our services, we are not receiving excellence, and you are not to recommend funding the Mo-SBDC for FY '88 unless these changes are made.

"to the time frames for submission of an acceptable negotiated cooperative agreement to Central Office we can no longer vacillate nor procrastinate in this matter, therefore, I need a copy of your correspondence to the Dean and President of the University setting forth our position no later than COB May 15, 1987.

James H. Laas

James H. Laas
Assistant Regional Administrator
Business Development

cc: Wm A. Powell, Regional Administrator
Robert Andrews, CO, SBDC



SAINT LOUIS UNIVERSITY

SCHOOL OF BUSINESS AND ADMINISTRATION
OFFICE OF THE DEAN

3674 LINDELL BOULEVARD
SAINT LOUIS, MISSOURI 63109
(314) 658-3833

May 21, 1987

Mr. William A. Powell
Regional Administrator
Small Business Administration
Kansas City District Office
Federal Building
911 Walnut
Kansas City, Missouri 64106

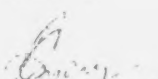
Dear Mr. Powell:

Thank you for taking time to visit with me recently and for your willingness to explore ways to make improvements in the Missouri Small Business Development program. I feel our program has made good progress in most respects, and that it provides excellent service to the Missouri small business community and to individual entrepreneurs. However after a recent visit from Mr. Andrews and Ms. Frazier from the St. Louis office, and conversations with Mr. Jim Laas in your office, I realize there are indeed important concerns to be addressed, and a need for closer cooperation.

I hope we can continue to explore some of the methods of establishing better communication and cooperation between the SBA staff and SBDC leadership which we discussed in your office. Certainly I am committed to working more closely with Fred Hale personally. Also our School would consider helping fund a high level deputy for Fred. This would be someone who would give the SBA liaison person(s) (whether it be Ms. Frazier, or one or more others in your office) an opportunity to deal with someone whose sole responsibility is the Missouri SBDC. As you know Fred Hale does have other projects under his administration and is active in community affairs in St. Louis and, to some extent, statewide. Therefore Fred may be spread too thin to do the job by himself. Also, Bill, I would be glad to establish a regular schedule of visits with you at which time I could come to Kansas City to discuss our program's progress and problems.

Thank you again for exchanging information with me in your office. I look forward to working with you more closely in the future.

Sincerely,


Emory C. Turner
Dean

EGT:jp



SAINT LOUIS UNIVERSITY

SCHOOL OF BUSINESS AND ADMINISTRATION
OFFICE OF THE DEAN

3874 LINDELL BOULEVARD
SAINT LOUIS, MISSOURI 63108
(314) 658-3833

May 27, 1987

Ms. Kathryn Frazier
ADD/BD - Project Officer
U.S. Small Business Administration
815 Olive Street, Room 244
St. Louis, Missouri 63101

Dear Ms. Frazier:

Thank you for your letter of May 19, including attachments. Your letter raises concerns over the management of the statewide office of the Small Business Development Center (SBDC). As you know this is the first time I have received direct criticism from you either verbally or in writing. In fact I had come to believe, from previous conversations, both individually and in group meetings, the statewide SBDC program was performing well. My feeling has been, for the most part, reinforced by the peer review conducted last spring, and many positive comments and written communications from client groups and individual small business owners in St. Louis and across the state. Therefore I was surprised by the purpose of the visit in our offices last week by Mr. Andrews and you. Nonetheless I understand the pressures you were apparently under during the visit and take your criticism quite seriously.

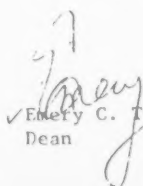
I am aware since our meeting on May 19 of increased correspondence from you, and others, suggesting the state director, Mr. Hale, has not furnished needed information and has been uncooperative. However I must tell you Fred feels much of the information you seek is included in our proposal and in previous reports; and I personally feel Fred is trying to cooperate. I think you realize too, cooperation becomes more difficult when the tone of the person seeking it is harsh and unfriendly. Perhaps Fred Hale and I could visit with you in your office at an early convenience and review point by point each of your concerns.

I want you to know I personally pledge to do all I can to help correct specific problems and to improve communications and individual relationships. To this end Mr. Powell was kind enough to host me for a visit in his office to discuss ways to make needed improvements in relations

Ms. Kathryn Frazier
May 27, 1987
Page 2

among the cooperating organizations, i.e. Small Business Administration, Saint Louis University, Rockhurst College, (and perhaps other institutions), and the Missouri Small Business Development Centers statewide. It is my hope through strengthening our organizational structure, (perhaps with funding coming in part from our School's internal budget), and more personal involvement on my part, and Mr. Powell's, we can alleviate most of the problems you have inferred. I very much hope we can, and I am willing to devote the effort to do so.

Sincerely,


✓ Emery C. Turner
Dean

ECT:jp

cc: William Powell, R.A., K.C.
Judith Dunn, Control Office, SBDC
James Laas, ARABD
Buck Grim, Grants Management Office
Glen Davis, KCMO



SAINT LOUIS UNIVERSITY

SCHOOL OF BUSINESS AND ADMINISTRATION
OFFICE OF THE DEAN

3674 LINDELL BOULEVARD
SAINT LOUIS, MISSOURI 63108
(314) 658-3833

June 16, 1987

Mr. Jim Laas
Assistant Regional Administrator
U.S. Small Business Administration
911 Walnut
Kansas City, Missouri 64106

RE: MoSBDC Year 06 Proposal

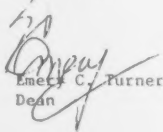
Dear Jim,

I enjoyed meeting you in Mr. Powell's office recently and exchanging information on the Missouri Small Business Development Centers (MoSBDC). As you know, last month we forwarded our proposal for the coming year (MoSBDC Year 06) to Ms. Kathe Frazier in the St. Louis SBA Office. It is my understanding Ms. Frazier has sent the proposal on to your office unsigned. In a letter to Kathe last month I offered to visit with her to resolve issues of concern (see attached letter) but have had no response. Therefore let me suggest we meet with you in Kansas City or St. Louis to attempt to resolve any differences that may remain.

The absence of additional feedback on the proposal itself leads me to believe the only issue which remains is the one of personnel which we discussed in Kansas City. At the time I felt we explained our reasons for wishing to retain current administration and also put forward a plan to strengthen, partly at our own expense, the administration structure of what has been a very rapidly growing MoSBDC. I am attaching a letter to Mr. Powell subsequent to our meeting which covers these points.

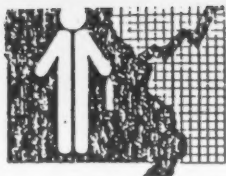
Jim it is my hope we can meet soon and resolve unsettled issues and avoid bringing officials in Washington into the resolution process. As I understand the process we have 15 calendar days to resolve issues at the regional level. Therefore in the event you feel we cannot negotiate our differences we would like to ask that 18 days from the date of this letter, that is Friday, July 3, be used as the date we ask for outside assistance. I will call you soon to see if we can get together on this matter. Thank you again for the time you took to visit in Kansas City.

Sincerely,


Emory C. Turner
Dean

ECT:jp

cc: Mr. Powell
Ms. Albertson
Mr. Andrews
Ms. Frazier
Mr. Hale
Mr. Cox



Small Business Development Centers

File Copy -

June 18, 1987

Mr. Jim Laas
Assistant Regional Administrator
U. S. Small Business Administration
911 Walnut
Kansas City, MO 64106

Re: MoSBDC Year 06 Proposal

Dear Mr. Laas:

This letter will serve to re-emphasize the comments in Dean Turner's letter to you dated June 16, 1987.

If, as the Dean mentioned, you and he are unable to resolve the remaining issue and reach agreement on the MoSBDC Year 06 Proposal by July 3, 1987, this letter is our official request that the MoSBDC Year 06 Proposal be forwarded on July 3, 1987 to the Deputy Associate Administrator - Business Development - Small Business Development Centers (DAA/BD/SBDC) according to the SBA/SBDC Conflict Resolution Policy.

Thank you for your prompt attention.

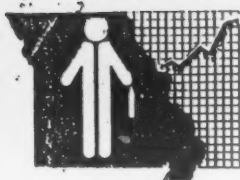
Sincerely,

Fred O. Hale
State Director

FOH/sm

cc: Emery Turner
Kathe Frazier
Robert Andrews
William Powell
Johnnie Albertson
John Cox

State Office
(314) 534-7204
St. Louis University
867 Lindell Boulevard
St. Louis, Missouri 63108



 SMALL • BUSINESS • DEVELOPMENT • CENTER

 Northeast • Missouri • State • University

 207 • East • Patterson

 Kirksville, • Missouri • 63501

July 10, 1987

Mr. Gene Anderson
 Small Business Administration
 911 Walnut Street
 Kansas City, MO 64106

Dear Gene:

This letter is in response to your July 7th telephone request for negative comments on MO SBDC Director Fred Hale. I do not appreciate such a request. You stated that the SBA is building up a case to justify terminating Fred Hale as MO SBDC state director. If this is the case, I would be glad to comment on Fred, but let me decide whether they should be negative or positive.

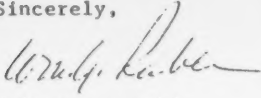
The Kirksville SBDC was opened in December 1985. I agreed to act as temporary acting director. This has continued for eighteen months and the term "temporary acting" has evidently been dropped. Admittedly, in the beginning I was not sold on this program. This, no doubt, led to a less than positive attitude about some SBDC and SBA personnel. After seeing the program in action, I have become a firm believer. I now see its value to the small business community and the economic welfare of the state and nation.

After reflecting on Fred Hale's performance, I find it difficult to make many negative comments. Like all humans, he is not perfect. But, he has yet to fail to respond to the needs of our center. And he does have the wisdom to allow each center to determine its own course of action in order to respond to the needs of the area. His meetings for planning and direction have been very valuable for center directors. I feel Fred has responded well to the needs of the State of Missouri and the SBDC program nationally. He would be hard to replace.

 816-785-4307

Also, I would like to state that my relationship with the SBA has, on the whole, been good. Let's keep the program going on a positive note.

Sincerely,

A handwritten signature in dark ink, appearing to read "W. G. Ruble", written in a cursive style.

William G. Ruble
Director, SBDC

WGR/iw

CC: Dr. Emory Turner, St. Louis University
Kathy Frazier, SBA, St. Louis
Bob Andrews, SBA, St. Louis
Bill Powell, SBA, Kansas City



SAINT LOUIS UNIVERSITY

SCHOOL OF BUSINESS AND ADMINISTRATION
OFFICE OF THE DEAN

3674 LINDELL BOULEVARD
SAINT LOUIS, MISSOURI 63108
(314) 658-3833

July 30, 1987

Mr. Jim Laas
Assistant Regional Administrator
U.S. Small Business Administration
911 Walnut
Kansas City, Missouri 64106

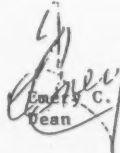
RE: MoSBDC Year 06 Proposal

Dear Jim,

Recently I learned our proposal for Year 06 for the Missouri Small Business Development Centers (MoSBDC) has not left your office. As you recall I sent you a letter, dated June 16, asking the proposal be sent by July 3rd, (copy attached). This was a date after a scheduled visit by me to your office. Subsequent to my visit I called Mr. Powell to ask the proposal be sent or that you immediately furnish us, in writing, tangible questions or criticisms which we could address. To date nothing has happened. We now ask again you send the proposal to Washington.

Jim, as a practical matter, our proposal in its essential form has been in your hands since March. Therefore the time is well past for questions or concerns. We have a statewide network of people whose morale, performance and livelihood depends in part on the action of your office. Undue delays cause them unnecessary confusion and stress. No matter our personal differences all of us have a responsibility to these people and the clients they serve.

Sincerely,


Emory C. Turner
Dean

ECT:jk

cc: Mr. Abdnor
Ms. Albertson
Mr. Andrews
Mr. Cox
Mr. Powell



SMALL BUSINESS ADMINISTRATION
KANSAS CITY REGIONAL OFFICE
911 WALNUT STREET
KANSAS CITY, MISSOURI 64106

August 7, 1987

Emery C. Turner
Dean, St. Louis University
School of Business & Administration
3674 Lindell Boulevard
St. Louis, MO 63108

Dear Emery,

I am in receipt of your letter dated July 30, 1987 and quite frankly I am somewhat surprised. When we met in Mr. Powell's office on July 1, in the presence of Mr. Davis and Ms. Lonah Birch, our final words as we parted, and I thought that this was the agreement, were that we would attempt to have subordinates of ours, namely Mr. Fred Hale and Ms. Kathy Frazier, negotiate the many items that were possibly acceptable on your cost proposal for Year 06 of the MoSBDC and you stated to us that you would have to go back and attempt to get "Fred to buy into this" and that you would be in touch with us at a later date with your answer.

You stated in your letter that you had contacted Mr. Powell and wanted specifics on items that were unacceptable. We find no record of such conversations taking place, further, we spent a great deal of time during our two meetings explaining to you about many items that were unacceptable on your cost proposal.

Number one, we insist on the replacement of both the State Director and the Director of the Rockhurst subcenter. We spent several hours with you enumerating the reasons for our position on this including, but not limited to:

- A. Refusal to cooperate with SBA employees including Business Development Officers, District Director, the Project Officer, Regional Public Information Officer and the Regional Administrator.
- B. Numerous letters of complaints from subcenters, the State of Missouri, the general public, and SBA personnel. You seem to take this very lightly, but I assure you the image presented has certainly not been the desired one, either for your institution nor SBA.

- C. Constant derogatory, sometimes even scurrilous remarks, both verbal and written by these individuals to and about SBA personnel. As you are aware, we are funding and providing jobs for these individuals, not the reverse.

Number two, we must, and I emphasize must, have a full accounting of money expended for the past three years by the MoSBDC. This will include salary, monies paid to consultants, number of hours, overhead rates, labor rates, travel, the purpose, who traveled, amount spent, amount spent for lodging, and a complete accounting of the meetings that have been conducted by Mr. Hale.

I am frankly surprised that you state in your letter that you submitted a complete, or basically complete, cost proposal and that this has been in our office since March. The proposal was neither complete nor satisfactory. There were no cost figures nor dollar figures of any kind mentioned. I have explained to you, and it has been explained to Mr. Hale, it is in the program announcement, it is and in the law, that all costs submitted, all cost figures proposed must be justified and supported. I find no record of you having furnished supporting documentation this year or in past proposals. This is the taxpayers' money and We Shall make an accounting of every penny.

This is a cooperative agreement intended to furnish services to the Small Business Community. Your failure to provide accounting for money spent and supporting documents for money proposed to be spent certainly does not reflect the good faith and commitment to our programs that we expect from our resource partners. I would ask you Emery, how you could possibly have submitted us a valid proposal when as I stated to you on the 1st of July one of your subcenters had not even furnished its cost proposal to you. We understand that this cost proposal was not submitted to you until July 29, 1987. This fact in itself renders your whole cost proposal invalid. The figures submitted to you by this subcenter certainly are not the figures you have submitted to us. I have stated to you, and I repeat, we require and have asked for many times that each subcenter proposal to the lead school, in this case St. Louis University, be included as part of the overall cost proposal package. This is to include a complete list of personnel, percentage of time devoted to the position, salary, benefits, organizational chart, proposed travel, a complete narrative of the activities of this particular subcenter, proposed activities and a resume of the personnel employed for the upcoming year.

One illustration of how this requirement has been blatantly ignored, and I have stated this to you, was Mr. Hale's reply to Mr. Glenn Davis in our meeting in Columbia last fall when Mr. Davis asked for the amount of money that was being expended by each subcenter in the Kansas City District. Fred's reply was "frankly that is none of your business", I reiterate that every penny spent by any of SBA's resources in the Kansas City District Office is indeed Mr. Davis's business. I informed you at our July 1st meeting of another incident that was alleged to have taken place on the preceding day in which Fred imposed a "gag order" on his subcenter directors, stating, that "SBA was out to get him, and that they were not going to have any success, as neither Mr. Powell nor Mr. Abdnor would be around very long and that he [Fred] would be". The point is that if you are condoning such action, it would indeed be cause for the initiation of action to remove St. Louis University from the SBDC program. This would negate any efforts to negotiate a cooperative agreement for the upcoming year. I do not think any of us want this to happen. I certainly believe in the SBDC program. It is working for us in our other states. I think that it should be our flagship of services to the small business community and certainly Missouri with the largest budget, and the largest amount of potential, should lead the way for our Four State Region, and should not be a party to conflict, unrest and confrontations. I have no desire to disrupt the lives of many good SBDC employees across the state of Missouri nor do I desire to interrupt the good services where it is in fact being provided by many of our subcenters in this state. However, we are mandated to monitor the activities of our resource partners, and we are mandated to deliver the best service for the money to our constituency. If we must put the flagship of our fleet of services in mothballs and seek out other means of delivering our services in the State of Missouri then we shall.

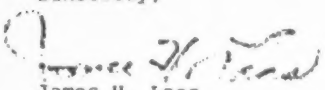
In today's arena of constant budget cuts, fiscal restraints, and the President's and Congress', and certainly Mr. Abdnor's commitment to efficiency and trimming the fat, it will take very little effort to convince those in higher level positions that we indeed have an inefficient resource that we want to trim. Emery, I do not want this to happen. I would ask again that you reconsider your position and take the action that we have requested. This is a cooperative agreement and cooperative effort and we ask you to cooperate in getting this program on track in Missouri.

If you are still of the opinion that we have reached an impasse and want this matter forwarded to Mr. John Cox, Associate Administrator for Business Development, for final determination, then so be it. I must, however, inform you that conversations at that level will be between

-4-

Mr. Cox and Fr. Stauder and that neither you nor I will be permitted to participate nor will our opinions be welcome. Along these lines, I would request that you instruct Fred as to proper channels of communications. He has once again attempted to circumvent proper channels, this time by going directly to Mr. Cox. This has not furthered the cause of the MoSBDC.

Sincerely,



James H. Laas

ARA/BD

cc: Mr. James Abdnor
Ms. Johnnie Albertson
Mr. Robert Andrews
Mr. John Cox
Mr. Wm. A. Powell
Fr. William Stauber



SAINT LOUIS UNIVERSITY

SCHOOL OF BUSINESS AND ADMINISTRATION
OFFICE OF THE DEAN

1007 SEP 15 PM 4
3874 LINDELL BOULEVARD
SAINT LOUIS, MISSOURI 63108
(314) 658-3833

August 13, 1987

The Honorable Senator Christopher Bond
Hart Senate Office Building, Room 321
Washington, D.C. 20510

Dear Senator Bond:

This letter is to call to your attention an issue which I believe has deteriorated to the point in which congressional involvement may be useful. The issue deals with the direction and management of the statewide network of Missouri Small Business Development Centers (MoSBDC). As you know the state office of the MoSBDC is housed in the School of Business and Administration at Saint Louis University and is directed by Fred Hale who reports to the Dean. Since March our School and I have been under direct pressure to terminate Fred Hale and a colleague, Ms. Judy Burngen, who manages the SBDC in Kansas City housed on the campus of Rockhurst College, a companion Jesuit institution.

To help acquaint you with the issues I am attaching several pieces of correspondence:

- 1) A letter from Mr. Jim Laas, a Small Business Administration (SBA) staff member in Kansas City to Ms. Kathe Frazier, the SBA project coordinator in St. Louis. This letter directs Ms. Frazier not to endorse our proposal for new funding unless the State Director, Hale, and Kansas City Director, Burngen, are removed.
- 2) A letter from me to Ms. Frazier following a visit in my office from her and her superior, Mr. Robert Andrews, Director of the St. Louis Office of the SBA. In my letter I indicate there is no basis for the demands from the Kansas City Office and, to the contrary, every form of feedback which we have received on the statewide program, including the office in St. Louis, has been positive. This letter received no response.
- 3) A letter from me to Mr. Bill Powell, the regional director of the SBA, following a visit I made to Mr. Powell's office in Kansas City. This visit was made in an attempt to find what reasons existed to terminate what I thought (and still do) were two well-qualified people. This letter received no response.

Senator Christopher Bond
August 13, 1987
Page 2

- 4) A letter from me to Mr. Laas after a second trip I made to Kansas City in an attempt to either be furnished written cause to terminate Hale and Burngen or have our proposal forwarded to the national SBA headquarters in Washington. This letter finally brought a response from Mr. Laas which I am also including as an attachment. Laas' letter in my view is inaccurate, offensive and irrelevant. The letter from Laas leads me to believe the SBA personnel in Kansas City are not negotiating in good faith. Based on my experience with Mr. Laas and several of his colleagues in the SBA Regional Office over the past three months I would offer the following observations and opinions.
- a) The attacks on Hale and Burngen are based on personality conflicts and in the case of Burngen perhaps even some sexual bias. There is also evidence the attack on Hale has political motivation.
 - b) Nothing has been given to me in writing outlining any form of incompetency, mismanagement, dereliction of duty, etc., which would give cause to consider termination of anyone.
 - c) In contrast to point letter (b) above, our files contain numerous letters of commendation about the Missouri SBDC and the St. Louis Office. In addition my personal contacts with Hale and with many people on and off campus with whom we are mutually associated are all highly positive.
 - d) Ms. Burngen has the full support and confidence of her superiors and associates at Rockhurst. In visiting the campus I was amazed to learn Ms. Burngen hardly knew Jim Laas, the person calling for her termination. Mr. Laas apparently had been on the job in Kansas City only a few weeks before calling for Burngen's resignation. He has never been to the Rockhurst campus to visit the program and he and Burngen apparently had met only once or twice while attending professional meetings. According to Ms. Burngen she was not informed when Mr. Laas came to Kansas City (from Springfield, Missouri) in the late spring of this year to his current position. It is clear Mr. Laas is acting on limited hearsay (within the offices of SBA) toward Ms. Burngen. He did not know her, had no written documentation against her, had not talked to her direct supervisor at Rockhurst, and has disregarded the favorable audit report and other favorable documentation in Burngen's office and elsewhere.
 - e) The SBA administration in Kansas City has effectively muzzled the head of the St. Louis office of the SBA, Robert Andrews. I believe Andrews has high regard for the capabilities and performance of Fred Hale, Judy Burngen and the performance of the statewide SBDC. However his views appear to be unimportant at best and suppressed at worst.

Senator Christopher Bond
 August 13, 1987
 Page 3

- 5) The Kansas City Office has intimidated and compromised the project coordinator in St. Louis; Ms. Frazier. I believe Ms. Frazier has little loyalty to her superior Mr. Andrews and little credibility within the statewide network of SBDC's.
- 6) There appears to be a concerted effort on the part of administrators in Kansas City to discredit, find fault and build a case against Mr. Hale and Ms. Burngen. Recently an SBDC director was contacted by a Kansas City SBA official and asked to write a negative letter concerning Fred Hale. Instead the Director, Mr. William Ruble in Kirksville, wrote a letter commending Fred's leadership and sent me a copy. This letter is also enclosed for your information.
- 7) In recent days I have called Mr. Powell's office several times and left word I would like to discuss our proposal's progress. He has not taken or returned any of my calls, (although his secretary confirmed he was in the office). This in itself is objectionable behavior from a public official toward a private citizen. Mr. Powell's apparent refusal to speak on the phone coupled with the lack of response to my earlier letters and his failure to even call me during his numerous visits to St. Louis, seem to make it clear he does not want to negotiate our differences. It thus appears delaying tactics are being used while SBA officials in Kansas City pursue any means possible to discredit Fred Hale, Judy Burngen and if necessary the entire Missouri SBDA program.
- 8) Finally and perhaps most importantly I have come to believe there are some in the Small Business Administration who do not believe in the SBDC concept, and in the legislation which created the program. This number includes some who will apparently work to undermine a program if those involved are not completely subservient, obedient and willing to follow directives of local SBA administrators..even if such directives are counter to prevailing policy or law. In my mind there are some in the Kansas City Regional Office who fit this description. These SBA officials are apparently determined to eliminate those from the MoSBDC who they cannot directly control, rather than cooperatively manage.

Senator Christopher Bond

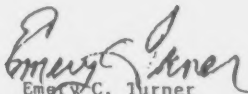
August 13, 1987

Page 4

In summary Senator, I have spent a considerable amount of my time and our University's funds attempting to resolve the issue involving the state SBDC personnel discussed above. In my view all normal measures of the Missouri SBDC network are very good. From reviews of financial audits, program audits, public response, letters and comments, conversations with those in the SBDC network, and personal observations on a daily basis, I feel we have good people doing a good job.

I have been a college administrator for twenty-five years at three universities and have had the unpleasant responsibility to terminate or "not renew" many people. However I always believed there was cause for such action and the cause would stand up to challenge. In this case I find there is no cause; and it should be abundantly clear to anyone, there is certainly no cause which would stand up to challenge. At this stage we would appreciate any advice or assistance you could lend.

Sincerely,


Emory C. Turner
Dean

ECT:jk



SAINT LOUIS UNIVERSITY

SCHOOL OF BUSINESS AND ADMINISTRATION
OFFICE OF THE DEAN

3674 LINCOLN BOULEVARD
SAINT LOUIS, MISSOURI 63108
(314) 658-3833

August 13, 1987

Ms. Johnnie L. Albertson
Deputy Associate Administrator
Small Business Development Centers
U.S. Small Business Administration
1441 L Street, N.W.
Washington, D.C. 20416

Dear Ms. Albertson:

As you probably know we have, during the past two months, attempted to have the Kansas City Regional Office of the Small Business Administration forward to your office the Saint Louis University proposal for year 06 of the Missouri Small Business Development Center. In this effort I have visited Kansas City twice and written twice asking for either specific criticisms we could address or that our proposal be sent to your office for review. Also Fred Hale has written once asking specifically that the conflict resolution policy of your agency be utilized and that our program receive adjudication outside of this region. Copies of the letters cited above are enclosed. I especially would like to call your attention to the first paragraph of my last letter dated July 30 to the SBA Regional Office in Kansas City. For the sake of emphasis please permit me to repeat this paragraph.

"Recently I learned our proposal for Year 06 for the Missouri Small Business Development Centers (MoSBDC) has not left your office. As you recall I sent you a letter, dated June 16, asking the proposal be sent by July 3rd, (copy attached). This was a date after a scheduled visit by me to your office. Subsequent to my visit I called Mr. Powell to ask the proposal be sent or that you immediately furnish us, in writing, tangible questions or criticisms which we could address. To date nothing has happened. We now ask again you send the proposal to Washington."

In a written response to the above excerpt of my letter Mr. Jim Laas from the Kansas City Regional Office suggests no conversation took place subsequent to my visit to Kansas City. However our phone records clearly show I made three calls to the Kansas City SBA Regional Office on July 2, 6 and 7. Further my memory clearly tells me I talked personally with Mr. William Powell at least twice on these occasions and he indicated in our last conversation there would probably be no written questions or documented complaints coming from the Kansas City Office. It was evident to me this lack of response was not because representatives in Kansas City were happy with the situation, but because they were simply not in a position to offer anything specific. I asked Mr. Powell at this time to send the proposal forward and assumed it would be done. In fact I even naïvely hoped the proposal would be sent with the reluctant endorsement of the Regional Office.

Ms. Jehnnie L. Albertson

August 13, 1987

Page 2

As you know, my letter of July 30, (which you and others received earlier), finally did trigger a response from Mr. Laas. However I believe this response to be misleading, personally offensive and, most importantly, irrelevant. The issue before us is the dismissal of two people, Fred Hale, Director of the Missouri SBDC network and Judy Burngen, Director of the Kansas City Office of the Missouri SBDC, located at Rockhurst College. My experience in this matter is that Hale and Burngen are two highly qualified people with excellent background credentials and a strong record of accomplishment. This experience on my part is reinforced by many contacts on our own campus, on the Rockhurst campus, in St. Louis and across the state. Our peer reviews have been highly positive, and letters from clients and attendees at conferences and programs are almost universally favorable. And, until Jim Laas arrived on the scene a few months ago, all feedback from the SBA itself has been very supportive.

In summary Ms. Albertson, there is no documented evidence of non-compliance or mismanagement but there is strong documented evidence of superior performance on the part of Hale and, I believe, Burngen as well. It is evident there is a personality conflict between Jim Laas and others in the Kansas City Regional Office on one side, and Fred Hale and Judy Burngen on the other. We very much regret this and have offered to work to correct this condition. However we cannot terminate people on this basis.

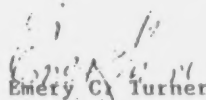
In my view Mr. Laas and a few of his associates are being unreasonable in their own refusal to negotiate and cooperate. I sincerely doubt their background credentials or their record of lifetime, or recent, accomplishments can match those of Hale and Burngen.

Because of the impasse described above I am now conveying to your office the Saint Louis University O6 proposal for the Missouri Small Business Development Center Network. We respectfully ask you to review our proposal and, if you wish, the matter of the personnel involved. Also, if you wish, we would be glad to accept outside adjudication of this issue by independent judges, professional arbitrators or people skilled in conflict resolution. We would pledge to accepting their findings, and ask that the Regional Office do the same. Finally, although we would not require it, it seems only fair, I think, that the actions and performance of the SBA people with whom we are obligated to work, be subjected to the same review.

Ms. Johnnie L. Albertson
August 13, 1987
Page 3

I deeply regret our inability to resolve our differences here in the midwest. Short of dismissing two people without documented cause, I remain ready to follow any path to work with the SBA officers in the Regional Office to resolve our differences and to continue to capably serve the many deserving business owners and managers in our state.

Sincerely,


Emery C. Turner
Dear

ECT:jk

cc: Don Clarey
Stanley Parrish
John Cox



SAINT LOUIS UNIVERSITY

SCHOOL OF BUSINESS AND ADMINISTRATION
OFFICE OF THE DEAN

3574 LINDELL BOULEVARD
SAINT LOUIS, MISSOURI 63104
(314) 658-3833

August 14, 1987

Mr. James H. Laas
ARA/RD
Small Business Administration
Kansas City Regional Office
911 Walnut Street
Kansas City, Missouri 64106

Dear Jim,

Because of your refusal to forward our 06 proposal for the Missouri Small Business Development Centers (MoSBDC) to Washington in accordance with established policy we have taken the step of sending it ourselves. However I will take time to respond to your letter.

- 1) Contrary to the assertion in paragraph two of your letter I did, after returning to St. Louis from our meeting in your office on July 1, call the Regional Office on July 2, 6 and 7. Our telephone records indicate this to be the case. My memory and personal notes also tell me I talked to Mr. Powell twice and the last conversation between us suggested no written comments would be forthcoming. Therefore we assumed our proposal was going forward after two written requests, two visits to your offices and two telephone calls.
- 2) As far as I can determine Saint Louis University has, in complete and full compliance with the Cooperative Agreement, provided every required financial report in a complete and timely fashion. Your inference that such is not the case is an unwarranted affront to the University and its staff. In my opinion, Jim, you cannot continue to make undocumented assertions which question peoples' integrity without eventually facing legal challenge.
- 3) Our final proposal was submitted to the SBA District Office on May 15, 1987 and has been in your office since early June, (transmitted from District Office on May 29, 1987). This proposal contains all financial data as required by the current SBDC Program Announcement in the form requested and approved by the SBA Grants Management Office in the previous four years.

Mr. James H. Loas

August 14, 1987

Page 2

All Missouri sub-centers were required to have their complete proposals in the hands of the State Director on March 7, 1987 (MoSBDC State-wide Program Announcement). If the un-named sub-center to which you refer had not reached an accord with the State Director before the proposal from Saint Louis University was submitted such an un-named center was not included in the proposal and will not be a sub-center in Year 06.

- 4) According to my information Mr. Hale, in a private meeting of Saint Louis University sub-contractors, advised all SBDC Directors to continue to deal with assigned SBA personnel regarding client referrals and planning of training programs. Mr. Hale also asked that any inquiry from any SBA personnel regarding the sub-contract between their institution and Saint Louis University and other non-programmatic issues be referred to Mr. Hale for formal response on behalf of SBA's prime contractor - Saint Louis University.

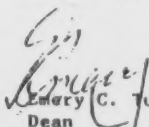
Much of your letter deals with hearsay, third party reports or your "recall" of selected statements made by others; and perhaps taken out of context. Frankly I do not think we are going to accomplish much by trying to trace who said what in various meetings or during social hours.

- 5) We believe the MoSBDC is fulfilling its contractual obligations. This is evidenced by an SBDC/SBA On-site Review, a very positive independently conducted State-wide Economic Impact Study, and files of documented positive feed-back from clients, training attendees, co-sponsoring organizations, other Federal Agencies, members of Congress, and the media. If you have negative documentation we again ask you to bring it forward.

Our impasse has not changed since Saint Louis University officially requested you forward our proposal to Washington after the fifteen day period (ending July 5, 1987) as specified in the SBA/SBDC Conflict Resolution Policy which is detailed in the SBDC Policy Manual. We do not understand why you failed to honor the request of Saint Louis University (my letter of June 16, 1987, Fred Hale's letter of June 18, and my phone calls of July 2, 6 and 7), and to observe the procedures so straightforwardly spelled out in the SBDC Policy Manual.

We very much regret our inability to solve the differences between us. We would be glad to accept outside adjudication of our differences by independent judges, professional arbitrators or people skilled in conflict resolution. We would pledge to accept their findings, and would hope the Regional Office would do the same. Short of dismissing two people without documented cause, we remain ready to follow any path to work with the SBA officers in the Regional Office to resolve our differences and to continue to capably serve the many deserving business owners and managers in our state.

Sincerely,


Emory C. Turner
Dean

ECT:jk

cc: Mr. Albertain
Mr. Powell
Mr. Andrews

U.S. SMALL BUSINESS ADMINISTRATION



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

September 25, 1987

Mr. Emory C. Turner, Dean
School of Business and Administration
St. Louis University
3674 Lindell Blvd.
St. Louis, MO 63108

REF: SB-2M-00086-05

Dear Dean Turner,

This letter shall serve as official notification that your agreement referenced above funding the Missouri Small Business Development Center at St. Louis University, is hereby extended to December 31, 1987, based on the below listed caveat. This three (3) month extension is provided at a not to exceed cost of \$340,650.00 of Federal dollars under Appropriation No. 7014.97.70140.4130C, with the understanding that an equally matched amount shall be provided by the Missouri SBDC for a total budget of \$681,300.00 for the three (3) month period. Such additional matched amount shall consist of a minimum of \$170,325.00 of cash dollars.

This three (3) month extension is expressly premised upon the reassignment outside the MOSBDC of the current State Director Fred O. Hale. This reassignment must be arranged as soon as possible but no later than December 31, 1987.

Upon verification of the above reassignment the MOSBDC shall provide a revised programmatic and budgetary proposal to continue funding through September 30, 1988, including the three (3) month period specified above. Upon acceptance, evaluation and negotiation by the Government of such programmatic and budgetary proposals the award shall be revised accordingly.

Acceptance of this continuation letter shall be so notated below and returned to the SBA Grants Management Office in Washington, D.C.

Sincerely,

John H. Grim, Agreements Officer

Accepted
Name:
Title:
Date:



SAINT LOUIS UNIVERSITY

SCHOOL OF BUSINESS AND ADMINISTRATION
OFFICE OF THE DEAN

3874 LINCOLN BOULEVARD
SAINT LOUIS, MISSOURI 63108

(314)658-3833

September 29, 1987

Mr. John H. Grim
Agreements Officer
U.S. Small Business Administration
Office of Procurement and Grants Management
Room 219
1441 L Street, N.W.
Washington, D.C. 20416

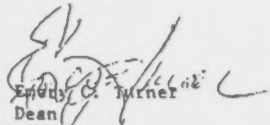
Dear Mr. Grim,

Enclosed is the signed agreement for the contract extension for the Missouri Small Business Development Centers (MoSBDC). It was important to receive this extension because nearly 100 people over the state (including 12 or so in our two offices on campus) would be immediately displaced if we did not continue. Our University believes in the MoSBDC program and we have invested our own resources heavily. To a lesser extent, this is true of the twenty or so cooperating colleges and universities in Missouri.

We feel we received verbal assurance early in September our contract would be extended for 90 days without conditions. It is our understanding this is normal procedure. Therefore we were surprised to learn on September 24th the very issue under review was made a condition of the extension. We believe this to be inappropriate and that this issue was not completely adjudicated.

We continue to believe Fred Hale has performed exceptionally well, however we also realize we were at an impasse with the Kansas City Regional Office. We regret they were unwilling to devote more time and energy to resolving our difference.

Sincerely,


Gregory C. Turner
Dean

ECT:jk

cc: Mr. Parrish
Mr. Cox
Father Gray

Senator WEICKER. I have a letter from the president of the University of Connecticut, John Casteen, to be included as part of the record.

The CHAIRMAN. Without objection.

[Material referred to follows:]



Office of the President

 U-48
 352 Mansfield Road
 Storrs, CT 06268
 (203) 486-2337

October 13, 1987

The Honorable Lowell P. Weicker, Jr.
 225 Russell Senate Office Building
 Washington, DC 20510

Dear Senator Weicker:

Over the last several years the Connecticut Small Business Development Center (SBDC) has undergone major changes and improved dramatically its service to the small business community. As you know, much of this change has been accomplished by working closely with you and your staff. For example, the SBDC is now receiving the hard cash dollars enabling it to comply with the requirements of the 1984 SBDC reservations bill. In fact, more state, local and private dollars are being committed than ever before. We also now have a SBDC Director who is dedicated full-time to managing the SBDC. The University of Connecticut has also taken the step to change the reporting line of the SBDC Director from the Dean of the School of Business to the Vice President of Academic Affairs to properly insure that the entire University is recognized and used as a resource to assist Small Business in Connecticut. I believe the University of Connecticut has, through these and other efforts, demonstrated its commitment to the program and to the small business it serves.

Now the Small Business Administration (SBA) is in the process of re-proposing for public comment regulations which I believe undermine the intent of Congress in establishing the program, the management of the program by the University, and the rights of the University as not just an equal funding partner but as an entity which is providing overmatch dollars for each federal dollar allocated to the program. They are unacceptable to the University and should not become final.

As I understand the original intent of Congress, the SBDC program was designed to meet the unique needs of small business within each state. National uniformity was discouraged and priorities were to be determined at the local level. These regulations conflict with that intent by allowing SBA to establish regional and national priorities which our SBDC must



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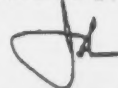
comply with in order to be refunded. Further, as such they abrogate the partnership between SBA and the SBDC mandated by Congress in the 1984 reservations bill for the program and therefore undermine the University's management of the program. I am not aware that Congress has ever given SBA the authority to establish "national priorities" for the SBDC program.

Similarly, these proposed regulations amount to SBA trying to control financially the SBDC program. They make every state, local and private sector dollar contributed to the program, including overmatch dollars, the equivalent of a federal dollar and subject to all SBA audit and regulatory requirements, as well as all OMB circulars. This is in addition to severely limiting the program's use of these funds. As you are aware, these attempts by SBA to control all financial aspects of this program are in conflict with the meaning of a cooperative agreement and are not justified by any OMB circulars. I do not see how the SBDC can approach the State or a private sector resource for funding when we have little, if any, control over those dollars. We should be able to use state and private sector dollars as we determine to be in the best interest of the program and small business.

Finally, after attempting to control both the service and financial aspects of the program, SBA through these regulations would prohibit the SBDC Director, me, or anybody else involved with the SBDC from talking to you or to state legislators about legislative issues affecting the program or small business issues in general. This attempt by SBA to silence the state partner is not only the height of arrogance but undoubtedly without any legal basis. Further, this effort by SBA definitely conflicts with the advocacy role the SBDC is expected to play on behalf of small business.

I understand that the Senate Small Business Committee will be holding an oversight hearing on the SBDC program on October 15. I ask that you explore these and other issues with the SBA witnesses, because I believe they may represent an attitude of the agency toward the SBDC program and its state partners. More importantly, I ask that you oppose legislatively these proposed regulations.

Sincerely,



John T. Casteen, III

The CHAIRMAN. Our first witness this morning is Mr. Stanley Parrish, Associate Deputy Administrator for Special Programs and essentially in charge of this program with SBA here. He is accompanied by Mr. John Cox, Associate Administrator for Business Development, and Ms. Johnnie Albertson, Deputy Associate Administrator, Office of Minority Small Business Capital Ownership Development.

Mr. Parrish, please proceed.

STATEMENT OF STANLEY B. PARRISH, ASSOCIATE DEPUTY ADMINISTRATOR FOR SPECIAL PROGRAMS, U.S. SMALL BUSINESS ADMINISTRATION, WASHINGTON, DC, ACCOMPANIED BY JOHN COX, ASSOCIATE ADMINISTRATOR FOR BUSINESS DEVELOPMENT; AND JOHNNIE ALBERTSON, DEPUTY ASSOCIATE ADMINISTRATOR, OFFICE OF MINORITY SMALL BUSINESS CAPITAL OWNERSHIP DEVELOPMENT

Mr. PARRISH. Mr. Chairman and Members of the Committee, I thank you for the opportunity to appear before you this morning.

It has been approximately 3 years since an oversight hearing has been held on the Small Business Development Center Program. There have been many developments of interest since then.

I want to assure you that I come here today to speak candidly about this program. Specifically, I will address what the program does for small business and outline for you what we at the Small Business Administration see as problem areas in the management and operation of SBDCs as they continue to grow and mature.

First, let me say that SBA fully endorses the concept of the Small Business Development Center Program. We take pride in the manifest accomplishments of the various centers, many of which have been described in detail to this committee by various SBDCs, host institutions and the clients that they serve. We at SBA look forward to future successes in program improvement.

To give this Committee an idea of the impact this program has had on the small business community, I would like to mention some particular areas of recent accomplishments which are tangible and quantifiable.

In fiscal year 1986, the SBDCs counseled more than 72,000 small business owners and prospective owners. Training sessions were conducted where over 258,000 small business owners received information about a multitude of business management subjects.

In addition to the counseling and training activities, certain SBDCs assisted in specialized counseling in the areas of international trade, while others focused their priorities in the areas of role development, research and development and other specialized functions dictated by given geographical markets.

In short, where the local SBA office, host institutions and other funders believe the need exists, the SBDCs are there to assist small business.

We have also made strides in working with the SBDCs in reducing the reporting requirements of the business development management information system. I am happy to report that commencing October 1, the SBA will accept a certified statement from our resources regarding their activities. The resources in turn have

agreed to keep specific records so that SBA will be able to monitor the statements submitted.

All that said, I wish I could have come before you today and support the notion that the SBDC Program is problem-free. Unfortunately, I cannot do so. The Small Business Development Center Program has grown at a fast pace. The 1987 available Federal share of this grant program amounted to approximately \$35 million. Even by Senator Dirksen's standards of a million here and a million there adding up to real money, this is no small program when you are considering direct Federal outlays at a time of budget restraint.

The SBA must operate this program employing solid management techniques. Unfortunately, this has been misconstrued by some SBDCs as being unsupportive of the program. This is quite simply not the case. The SBDC Program currently depends in part on the Federal dollars allocated for the program.

More importantly, the success of the program depends upon an assessment as to whether or not the taxpayers are getting their money's worth.

SBA has no quarrel with the various Small Business Development Centers that deliver the services agreed to in the cooperative agreement, nor with the States that have joined with, nor with the host institutions who are the applicants for allocated Federal funds.

SBA wants this program to work and work well, and we will be taking very positive steps to strengthen our ties to the various host institutions and the individual SBDCs. Direct communications between SBA and the various grant recipients will improve our relations, and progress is being made in understanding each other's role.

I think this part of my testimony would not be complete unless I address the partnership terminology contained in P.L. 98-395. It appears that the word "partnership" has come to mean many things to many parties. Partnerships are not new arrangements at SBA, and we understand partnerships. We have had partnerships with various public and private entities that predate the SBDC Program.

What has made this partnership difficult to implement is that, in practice, this partnership tends to mutate into subjective deliverable programs confused with objective technical and financial areas where a partnership must be clearly defined.

SBA as a Government agency is held accountable for the management and the fiscal status of all our programs; hence, rules and regulations, policies governing program operation, program oversight and audits are not altered by particular partnerships. We agree totally that the program deliverables as defined in the cooperative agreement should be negotiated in an open forum where the views of all parties are heard and acted upon. This is where a true partnership is needed and necessary.

The agency feels that management decisions concerning program policy and implementation procedures rest solely with the agency as the grantor and are not at issue in any individual partnership cases.

We are taking an affirmative step in improving the knowledge of our SBDC project officers so they will fully understand the partnership concept as it pertains to the cooperative agreement. We have scheduled a training session for these SBA employees to be held in November.

As part of this training, we will be inviting each SBDC director and host institution representative to attend a portion of this event to share with them our goals, objectives and mission. We intend to build a program together that we can all be proud of.

I would like to address the pending SBDC rules and regulations. This has been a controversial subject. Some would have no regulations at all. Some would have very strong regulations, and still others take the middle ground position.

Rulemaking required under Federal law compels agencies to formulate and disclose program policies from the code of Federal regulations. The SBDC Program has grown from the time when a handful of SBDCs and a few program officials in Washington could simply agree among themselves how best to proceed.

Today there are SBDCs in almost every State. Some States have more than one, and there are more to come. Application processing and program administration responsibilities have been increasingly delegated to SBA field officials. The program, in short, has matured to the point where many diverse interests are involved. Public regulations are needed. Formalized rules serve to inform the public as to how an agency implements its statutory authority.

Such rules serve to guide potential program beneficiaries or participants to make use of the program. They serve also to insure objectivity, uniformity and fairness in how the program is administered.

The SBA Administrator has made a decision that it is necessary to have regulations governing this program. Not to have regulations would, in our opinion, make it difficult to administer the program with consistency, equity and efficiency.

A regulatory framework would also insure that there can be no question as to what SBA as a grantor expects from the States and grantees. Similarly, there would be no doubt as to what the SBDCs can expect from SBA as a grantor. In such an environment of successful regulation, the program will withstand any public scrutiny.

We have gone through a long, grueling process formulating and modifying regulations. In keeping with established practice, we have published the proposed regulations originally for a 60-day period and extended that timeframe for an additional 30 days.

Over 200 comments were received from concerned parties during the response period. We believe the suggested comments and modifications assisted us in improving the final product, and we want to publicly thank those who took the time to send their written views on this complex and important regulatory matter.

After adopting approximately 90 percent of the suggested changes, we are ready to reissue our regulatory plan. The Administrator has made the decision to request further public comment prior to final implementation. We believe this process will give the public one more opportunity to look at the regulations, to express their views and give the agency adequate time to make any modifications it deems necessary.

Here, it would be appropriate to place the SBDC Program into some tangible perspective to show just how important it is from a fiscal standpoint. In fiscal year 1987, the SBDC Program, totaling some \$35 million, amounted to 64.4 percent of the aggregate business development budget for the total agency.

Another area that needs to be considered regarding the SBDC Program deals with the relationship of the SBDC resource with other resources of the agency. The SBDCs are a good resource. They are important to SBA, and they are important to small business. No one resource should be placed ahead of all the other resources serving small business. To do so detracts from the fine services being provided by State, county and local entities, Score, SBI, the chambers of commerce, business associations, and the many other organizations that serve small business each day.

The SBDCs are not the sole focus or the primary source of assistance for small business but, rather, one of our many programs and services that are available to assist small business.

As the Small Business Act states, the SBA was created to aid, counsel and assist small business, and in this capacity we are the coordinators and the central point of contact for small business.

It is not our intention and, indeed, we have no lawful jurisdiction to transfer this authority or this mandate to another party. Rather, we encourage all parties to join with us in assisting small business.

In closing, I would like to make one request of this Committee. Approximately 6 months ago, this Committee and the Senate as a whole gave total support to your former colleague, Senator Abnor, when he came before you for confirmation. You made the right decision. Jim Abnor is a friend of small business. He supported SBA and small business as a Congressman and as a Senator.

He needs to be given the opportunity to manage the programs of SBA as he believes they should be managed to obtain the best return for the taxpayer and the best benefit for small business. Jim needs the latitude to operate if he is to be effective, and those of you who put him behind the Administrator's desk ought now to grant him the full powers which ought to accompany that desk.

There is an old saying that you cannot be the bishop if you do not have the ring. I ask you to reaffirm your support of Jim Abnor and give him that ring so that he can act as a forceful bishop to America's small business congregation.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions that you and any of the other members might have.

[The prepared statement of Mr. Parrish follows:]



STATEMENT OF

STANLEY B. PARRISH

ASSOCIATE DEPUTY ADMINISTRATOR

FOR SPECIAL PROGRAMS

BEFORE THE

COMMITTEE ON SMALL BUSINESS

UNITED STATES SENATE

OCTOBER 15, 1987

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I THANK YOU FOR THE
OPPORTUNITY TO COME BEFORE YOU TODAY.

BACKGROUND AND ACCOMPLISHMENTS

IT HAS BEEN APPROXIMATELY 3 YEARS SINCE AN OVERSIGHT HEARING HAS BEEN HELD ON THE SMALL BUSINESS DEVELOPMENT CENTER (SBDC) PROGRAM AND THERE HAS BEEN MANY DEVELOPMENTS OF INTEREST SINCE THEN. I WANT TO ASSURE YOU THAT I COME HERE TODAY TO SPEAK CANDIDLY ABOUT THIS PROGRAM. SPECIFICALLY, I WILL ADDRESS WHAT THE PROGRAM DOES FOR SMALL BUSINESS AND OUTLINE FOR YOU WHAT WE AT THE SMALL BUSINESS ADMINISTRATION (SBA) SEE AS PROBLEM AREAS IN THE MANAGEMENT AND OPERATION OF SBDCs AS THEY CONTINUE TO GROW AND MATURE.

FIRST, LET ME SAY THAT SBA FULLY ENDORSES THE CONCEPT OF THE SMALL BUSINESS DEVELOPMENT CENTER PROGRAM. WE TAKE PRIDE IN THE MANIFEST ACCOMPLISHMENTS OF THE VARIOUS CENTERS, MANY OF WHICH HAVE BEEN DESCRIBED IN DETAIL TO THIS COMMITTEE BY VARIOUS SBDCs, HOST INSTITUTIONS, AND THE CLIENTS THEY SERVE. WE AT SBA LOOK FORWARD TO FUTURE SUCCESSES AND PROGRAM IMPROVEMENT.

TO GIVE THIS COMMITTEE AN IDEA OF THE IMPACT THIS PROGRAM HAS HAD ON THE SMALL BUSINESS COMMUNITY, I WOULD LIKE TO MENTION SOME PARTICULAR AREAS OF RECENT ACCOMPLISHMENTS WHICH ARE TANGIBLE AND QUANTIFIABLE. IN FISCAL YEAR 1986, THE SBDCs COUNSELED MORE THAN 72,000 SMALL BUSINESS OWNERS AND PROSPECTIVE OWNERS. TRAINING SESSIONS WERE CONDUCTED WHERE OVER 258,000 SMALL BUSINESS OWNERS RECEIVED INFORMATION ABOUT A MULTITUDE OF BUSINESS MANAGEMENT SUBJECTS. IN ADDITION TO THE COUNSELING AND TRAINING ACTIVITY, CERTAIN SBDCs ASSISTED IN SPECIALIZED COUNSELING IN THE AREAS OF INTERNATIONAL TRADE WHILE OTHERS FOCUSED THEIR PRIORITIES IN THE AREAS OF RURAL DEVELOPMENT, RESEARCH AND DEVELOPMENT, AND OTHER SPECIALIZED FUNCTIONS DICTATED BY GIVEN GEOGRAPHICAL MARKETS. IN SHORT, WHERE THE LOCAL SBA OFFICE, HOST INSTITUTIONS, AND OTHER FUNDERS BELIEVE THE NEED EXISTS, SBDCs ARE THERE TO ASSIST SMALL BUSINESS.

WE HAVE ALSO MADE STRIDES IN WORKING WITH THE SBDCs IN REDUCING THE REPORTING REQUIREMENTS OF THE BUSINESS DEVELOPMENT MANAGEMENT INFORMATION SYSTEM. I AM HAPPY TO REPORT THAT, COMMENCING OCTOBER 1ST, THE SBA WILL ACCEPT A CERTIFIED STATEMENT FROM OUR RESOURCES REGARDING THEIR ACTIVITIES. THE RESOURCES IN TURN, HAVE AGREED TO KEEP SPECIFIC RECORDS SO THAT SBA WILL BE ABLE TO MONITOR THE STATEMENTS SUBMITTED.

ALL THAT SAID, I WISH I COULD HAVE COME BEFORE YOU TODAY AND SUPPORT THE NOTION THAT THE SBDC PROGRAM IS PROBLEM FREE. UNFORTUNATELY, I CAN NOT DO SO.

PROGRAM GROWTH:

THE SMALL BUSINESS DEVELOPMENT CENTER PROGRAM HAS GROWN AT A FAST PACE. THE 1987 AVAILABLE FEDERAL SHARE OF THIS GRANT PROGRAM AMOUNTED TO APPROXIMATELY \$35 MILLION. EVEN BY SENATOR DIRKSEN'S STANDARD OF A MILLION HERE AND THERE ADDING UP TO REAL MONEY, THIS IS NO SMALL PROGRAM WHEN YOU ARE CONSIDERING DIRECT FEDERAL OUTLAYS AT A TIME OF BUDGET RESTRAINT.

SBA MUST OPERATE THIS PROGRAM EMPLOYING SOLID MANAGEMENT TECHNIQUES WITH A FIRM HAND ON THE FISCAL THROTTLE. UNFORTUNATELY THIS NEED FOR RESTRAINT AT TIMES HAS BEEN MISCONSTRUED BY THE SBDCs AS BEING UNSUPPORTIVE OF THE PROGRAM. THIS IS QUITE SIMPLY NOT THE CASE. THE SBDC PROGRAM CURRENTLY DEPENDS IN PART ON THE FEDERAL DOLLARS ALLOCATED FOR THE PROGRAM. BUT MORE IMPORTANTLY, THE SUCCESS OF THE PROGRAM DEPENDS UPON A

POLITICAL ASSESSMENT AS TO WHETHER OR NOT THE TAXPAYERS ARE GETTING THEIR MONEY'S WORTH AND THE PROGRAM IS BEING RUN IN AN ABOVE-BOARD MANNER.

SBA HAS NO QUARREL WITH THE VARIOUS SMALL BUSINESS DEVELOPMENT CENTERS THAT DELIVER THE SERVICES AGREED TO IN THE COOPERATIVE AGREEMENT. NOR WITH THE STATES THAT HAVE JOINED WITH US. NOR WITH THE HOST INSTITUTIONS WHO ARE THE APPLICANTS FOR ALLOCATED FEDERAL FUNDS. SBA WANTS THIS PROGRAM TO WORK AND WORK WELL AND WE WILL BE TAKING VERY POSITIVE STEPS TO STRENGTHEN OUR TIES TO THE VARIOUS HOST INSTITUTIONS AND THE INDIVIDUAL SBDCs. DIRECT COMMUNICATIONS BETWEEN SBA AND THE VARIOUS GRANT RECIPIENTS WILL IMPROVE OUR RELATIONS AND PROGRESS IS BEING MADE IN UNDERSTANDING EACH OTHERS ROLES IN THE QUEST TO MAKE THIS PROGRAM A WINNER.

PROGRAM PARTNERSHIP

I THINK THIS PART OF MY TESTIMONY WOULD NOT BE COMPLETE UNLESS I ADDRESSED THE "PARTNERSHIP" TERMINOLOGY CONTAINED IN PUBLIC LAW 98-395. IT APPEARS THAT THE WORD PARTNERSHIP HAS COME TO MEAN MANY THINGS TO MANY PARTIES. PARTNERSHIPS ARE NOT NEW ARRANGEMENTS AT SBA AND WE

UNDERSTAND PARTNERSHIPS. WE HAVE HAD PARTNERSHIPS WITH VARIOUS PUBLIC AND PRIVATE ENTITIES THAT PREDATE THE SBDC PROGRAM. WHAT HAS MADE THIS PRACTICE PARTNERSHIP DIFFICULT TO IMPLEMENT IS THAT, IN PRACTICAL, PARTNERSHIP TENDS TO MUTATE INTO SUBJECTIVE TECHNICAL AND FINANCIAL AREAS WHERE A PARTNERSHIP CAN NO LONGER BE ACCEPTED BY THE AGENCY OF AUTHORITY.

SBA, AS A GOVERNMENT AGENCY, IS HELD ACCOUNTABLE FOR THE MANAGEMENT AND THE FISCAL SOUNDNESS OF ALL OUR PROGRAM'S. HENCE, RULES AND REGULATIONS, POLICIES GOVERNING PROGRAM OPERATION, PROGRAM OVERSIGHT, AND AUDITS, ARE NOT ALTERED BY PARTICULAR PARTNERSHIPS. WE AGREE TOTALLY THAT PROGRAM DELIVERABLES, AS DEFINED IN THE COOPERATIVE AGREEMENT, SHOULD BE NEGOTIATED IN AN OPEN FORUM WHERE THE VIEWS OF ALL PARTIES ARE HEARD AND ACTED UPON. THIS IS WHERE TRUE PARTNERSHIP IS NEEDED AND NECESSARY.

THE AGENCY FEELS VERY STRONGLY THAT MANAGEMENT DECISIONS CONCERNING PROGRAM POLICY AND IMPLEMENTATION PROCEDURES REST SOLELY WITH THE AGENCY AS THE GRANTOR AND ARE NOT AT ISSUE IN ANY INDIVIDUAL PARTNERSHIP CASES.

WE ARE TAKING AN AFFIRMATIVE STEP IN IMPROVING THE KNOWLEDGE OF OUR SBDC PROJECT OFFICERS SO THEY WILL FULLY UNDERSTAND THE PARTNERSHIP CONCEPT AS IT PERTAINS TO THE COOPERATIVE AGREEMENT. WE HAVE SCHEDULED A TRAINING SESSION FOR THESE SBA EMPLOYEES TO BE HELD IN NOVEMBER. AS PART OF THIS TRAINING, WE WILL BE INVITING EACH SBDC DIRECTOR AND HOST INSTITUTION REPRESENTATIVE TO ATTEND A PORTION OF THIS EVENT TO SHARE WITH THEM OUR GOALS, OBJECTIVES AND MISSION. WE INTEND TO BUILD A PROGRAM TOGETHER THAT WE CAN ALL BE PROUD OF.

PROGRAM RULES AND REGULATIONS

I WOULD LIKE TO ADDRESS THE PENDING SBDC RULES AND REGULATIONS. THIS HAS BEEN A CONTROVERSIAL SUBJECT. SOME WOULD HAVE NO REGULATIONS AT ALL. SOME WOULD HAVE VERY STRONG REGULATIONS. STILL OTHERS TAKE A MIDDLE GROUND POSITION.

RULEMAKING REQUIRED UNDER FEDERAL LAW COMPELS AGENCIES TO FORMULATE AND DISCLOSE PROGRAM POLICIES IN THE CODE OF

FEDERAL REGULATIONS. THE SBDC PROGRAM HAS GROWN FROM THE TIME WHEN A HANDFUL OF SBDCs AND A FEW PROGRAM OFFICIALS IN WASHINGTON COULD SIMPLY AGREE AMONG THEMSELVES HOW BEST TO PROCEED. TODAY THERE ARE SBDCs IN ALMOST EVERY STATE. SOME STATES HAVE MORE THAN ONE, AND THERE ARE MORE TO COME. APPLICATION PROCESSING AND PROGRAM ADMINISTRATION RESPONSIBILITIES HAVE BEEN INCREASINGLY DELEGATED TO SBA FIELD OFFICIALS. THE PROGRAM, IN SHORT, HAS MATURED TO THE POINT WHERE MANY, DIVERSE, INTERESTS ARE INVOLVED. PUBLIC REGULATIONS ARE NEEDED. FORMALIZED RULES SERVE TO INFORM THE PUBLIC AS TO HOW AN AGENCY IMPLEMENTS ITS STATUTORY AUTHORITY.

SUCH RULES, SERVE TO GUIDE POTENTIAL PROGRAM BENEFICIARIES OR PARTICIPANTS TO MAKE BEST USE OF THE PROGRAM. THEY SERVE ALSO TO INSURE OBJECTIVITY, UNIFORMITY AND FAIRNESS IN HOW THE PROGRAM IS ADMINISTERED.

THE SBA ADMINISTRATOR HAS MADE A DECISION THAT IT IS NECESSARY TO HAVE REGULATIONS GOVERNING THIS PROGRAM. NOT TO HAVE REGULATIONS WOULD, IN OUR OPINION, MAKE IT DIFFICULT TO ADMINISTER THE PROGRAM WITH CONSISTENCY, EQUITY, AND EFFICIENCY. A REGULATORY FRAMEWORK WOULD ALSO INSURE THAT THERE CAN BE NO QUESTION AS TO WHAT SBA, AS

THE GRANTOR, EXPECTS FROM THE STATES AND GRANTEEES. SIMILARLY, THERE WOULD BE NO DOUBT AS TO WHAT THE SBDCs CAN EXPECT FROM SBA AS GRANTOR. IN SUCH AN ENVIRONMENT OF SENSIBLE REGULATION, THE PROGRAM WILL WITHSTAND ANY PUBLIC SCRUTINY.

WE HAVE GONE THROUGH A LONG, GRUELING PROCESS FORMULATING AND MODIFYING REGULATIONS. IN KEEPING WITH ESTABLISHED PRACTICE, WE PUBLISHED THE PROPOSED REGULATIONS ORIGINALLY FOR A 60 DAY PERIOD AND EXTENDED THAT TIME FRAME FOR AN ADDITIONAL 30 DAYS. OVER 200 COMMENTS WERE RECEIVED FROM CONCERNED PARTIES DURING THE RESPONSE PERIOD. WE BELIEVE THE SUGGESTED COMMENTS AND MODIFICATIONS ASSISTED US IN IMPROVING THE FINAL PRODUCT AND WE WANT TO PUBLICLY THANK THOSE WHO TOOK THE TIME TO SEND THEIR WRITTEN VIEWS ON THIS COMPLEX AND IMPORTANT REGULATORY MATTER.

AFTER ADOPTING APPROXIMATELY 90% OF THE SUGGESTED CHANGES, WE ARE READY TO REISSUE OUR REGULATORY PLAN. THE ADMINISTRATOR HAS MADE THE DECISION TO REQUEST FURTHER PUBLIC COMMENT PRIOR TO FINAL IMPLEMENTATION.

WE BELIEVE THIS PROCESS WILL GIVE THE PUBLIC ONE MORE OPPORTUNITY TO LOOK AT THE REGULATIONS, TO EXPRESS THEIR VIEWS AND GIVE THE AGENCY ADEQUATE TIME TO MAKE ANY MODIFICATIONS IT DEEMS NECESSARY.

HERE, IT WOULD BE APPROPRIATE TO PLACE SBDC PROGRAM INTO SOME TANGIBLE PERSPECTIVE TO SHOW JUST HOW IMPORTANT IT IS FROM A FISCAL STANDPOINT. IN FISCAL YEAR 1987, THE SBDC PROGRAM, TOTALLING SOME \$35 MILLION, AMOUNTED TO 64.4 % OF THE AGGREGATE BUSINESS DEVELOPMENT BUDGET FOR THE TOTAL AGENCY. THE 46 SBDC GRANT RECIPIENTS RECEIVED APPROXIMATELY 2.8 TIMES THE TOTAL FUNDS ALLOCATED ON A NATIONAL BASIS FOR BUSINESS DEVELOPMENT'S SALARY AND BENEFITS. IT IS WELL TO REMEMBER THAT SBDC IS JUST ONE OF MANY RESOURCES THAT THE AGENCY WORKS WITH. THE \$35 MILLION SBDC FUNDING, GOING TO 46 RECIPIENTS COMPARES TO \$97 MILLION PROVIDED AS DIRECT LOANS TO HANDICAPPED PERSONS, TO THE DISADVANTAGED, TO OUR VETERANS, AND FOR THE DIRECT FEDERAL FUNDS ALLOCATED FOR THE MESBIC PROGRAM. ALL OF THESE OTHER PROGRAMS HAVE FORMALIZED RULES AND REGULATIONS GOVERNING THEIR ACTIVITIES PUBLISHED BY SBA. AS YOU CAN SEE, THE SBDC PROGRAM IS NO LONGER A SMALL PART OF SBA'S FISCAL RESPONSIBILITY AND THE GROWTH OF THE PROGRAM REQUIRES A FORMAL FRAMEWORK OF REGULATORY GUIDANCE.

SBDCs' RELATIONS WITH OTHER RESOURCES

ANOTHER AREA THAT NEEDS TO BE CONSIDERED REGARDING THE SBDC PROGRAM DEALS WITH THE RELATIONSHIP OF THE SBDC RESOURCE WITH OTHER RESOURCES OF THE AGENCY. THE SBDCs ARE A GOOD RESOURCE. THEY ARE IMPORTANT TO SBA AND THEY ARE IMPORTANT TO SMALL BUSINESS. NO ONE RESOURCE SHOULD BE PLACED AHEAD OF ALL THE OTHER RESOURCES SERVING SMALL BUSINESS. TO DO SO DETRACTS FROM THE FINE SERVICES BEING PROVIDED BY STATE, COUNTY AND LOCAL ENTITIES, SCORE, SBI, THE CHAMBERS OF COMMERCE, BUSINESS ASSOCIATIONS, AND THE MANY OTHER ORGANIZATIONS THAT SERVE SMALL BUSINESS EACH DAY. THE SBDCs ARE NOT THE SOLE FOCUS OR THE PRIMARY SOURCE OF ASSISTANCE TO SMALL BUSINESS, BUT RATHER ONE OF OUR MANY PROGRAMS AND SERVICES THAT ARE AVAILABLE TO ASSIST SMALL BUSINESS.

AS THE SMALL BUSINESS ACT STATES, THE SBA WAS CREATED TO AID, COUNSEL AND ASSIST SMALL BUSINESS AND, IN THIS CAPACITY, WE ARE THE COORDINATORS AND THE CENTRAL POINT OF CONTACT FOR SMALL BUSINESS. IT IS NOT OUR INTENTION, INDEED WE HAVE NO LAWFUL JURISDICTION, TO TRANSFER THIS AUTHORITY OR THIS MANDATE TO ANOTHER PARTY. RATHER, WE

ENCOURAGE ALL PARTIES TO JOIN WITH US IN ASSISTING SMALL BUSINESS.

IN CLOSING, I WOULD LIKE TO MAKE ONE REQUEST OF THIS COMMITTEE.

APPROXIMATELY 6 MONTHS AGO, THIS COMMITTEE, AND THE SENATE AS A WHOLE, GAVE TOTAL SUPPORT TO YOUR FORMER COLLEAGUE, SENATOR ABDNOR, WHEN HE CAME BEFORE YOU FOR CONFIRMATION. YOU MADE THE RIGHT DECISION. JIM ABDNOR IS A FRIEND OF SMALL BUSINESS. HE SUPPORTED SBA AND SMALL BUSINESS AS A CONGRESSMAN AND AS A SENATOR. HE NEEDS TO BE GIVEN THE OPPORTUNITY TO MANAGE THE PROGRAMS OF SBA AS HE BELIEVES THEY SHOULD BE MANAGED TO OBTAIN THE BEST RETURN FOR THE TAXPAYER AND THE BEST BENEFIT TO SMALL BUSINESS. JIM NEEDS THE LATITUDE TO OPERATE IF HE IS TO BE EFFECTIVE AND THOSE OF YOU WHO PUT HIM BEHIND THE ADMINISTRATOR'S DESK OUGHT NOW GRANT HIM THE FULL POWERS WHICH OUGHT TO ACCOMPANY THAT DESK. THERE IS AN OLD SAYING, THAT "YOU CAN'T BE THE BISHOP IF YOU DON'T HAVE THE RING." I ASK YOU TO REAFFIRM YOUR SUPPORT OF JIM ABDNOR AND GIVE HIM THAT RING SO THAT HE CAN ACT AS A FORCEFUL BISHOP TO AMERICA'S SMALL BUSINESS CONGREGATION.

MR. CHAIRMAN, THIS CONCLUDES MY PREPARED STATEMENT AND I WILL BE HAPPY TO ANSWER ANY QUESTIONS THAT YOU AND THE OTHER MEMBERS MAY HAVE.

The CHAIRMAN. Incidentally, Senator Karnes, did you have an opening statement you would like to put in the record?

Senator KARNES. Yes, Mr. Chairman, I do. If I could insert my statement in the record.

The CHAIRMAN. Without objection.

[The prepared statements of Senators Karnes, D'Amato, Dixon, Kerry, and Boren follow:]

STATEMENT OF SENATOR DAVID K. KARNES

SMALL BUSINESS COMMITTEE

OVERSIGHT HEARING ON

SMALL BUSINESS DEVELOPMENT CENTERS

MR. CHAIRMAN, I WOULD LIKE TO THANK YOU FOR SCHEDULING TODAY'S HEARING. OVERSIGHT HEARINGS SERVE A VERY IMPORTANT CONGRESSIONAL FUNCTION. WHEN CONGRESS SETS UP PROGRAMS, LIKE THE SMALL BUSINESS DEVELOPMENT CENTER PROGRAM, WE SHOULD ALWAYS REVIEW THE DEVELOPMENT AND PROGRESS OF THE PROGRAM TO ASSURE THAT IT IS FUNCTIONING IN A MANNER THAT MEETS THE NEEDS OF THE PROGRAM'S CONSTITUENCY. THIS HEARING WILL GIVE THE COMMITTEE A BETTER UNDERSTANDING OF HOW CONGRESS CAN LEND FURTHER SUPPORT TO THOSE RUNNING THE SBDC PROGRAM, SO THAT THEY CAN ACHIEVE THE GOALS SOUGHT BY THE ORIGINAL LEGISLATION.

I WOULD ALSO LIKE TO THANK CHANCELLOR DEL WEBER OF THE UNIVERSITY OF NEBRASKA AT OMAHA FOR MAKING THE TRIP TO WASHINGTON TO TESTIFY AT TODAY'S HEARING. I THINK HIS PARTICIPATION IN THIS HEARING WILL PROVIDE THE COMMITTEE WITH A UNIQUE PERSPECTIVE ON THE SMALL BUSINESS DEVELOPMENT CENTER PROGRAM. HE CAN PROVIDE A UNIQUE PERSPECTIVE, NOT ONLY BECAUSE HIS TESTIMONY IS COMING FROM ONE OF THE GREAT EDUCATORS IN OUR STATE, BUT ALSO BECAUSE AS THE CHANCELLOR OF THE UNIVERSITY OF NEBRASKA AT OMAHA, HE OVERSEES A VERY, VERY SUCCESSFUL SBDC PROGRAM.

I AM EXTREMELY PROUD OF THE DEDICATION AND EFFORT THAT CHANCELLOR WEBER AND BOB BERNIER, THE DIRECTOR OF THE NEBRASKA BUSINESS DEVELOPMENT CENTER, WHO IS ALSO IN ATTENDANCE AT TODAY'S HEARING, HAVE PUT FORTH TO MAKE THE PROGRAM A SUCCESS. THE NBDC PROGRAM THAT HAS BEEN DEVELOPED UNDER SUPERVISION AND DIRECTION OF THESE INDIVIDUALS HAS PROVEN TO BE A VERY IMPORTANT TOOL FOR FOSTERING THE DEVELOPMENT OF OUR STATE'S SMALL BUSINESSES.

THESE TWO INDIVIDUALS ALONG WITH ALL OF THE PARTICIPATING NBDC STAFF, FACULTY AND STUDENTS HAVE WORKED VERY HARD FOR SEVERAL

YEARS TO PROVIDE QUALITY ASSISTANCE TO NEBRASKA'S SMALL BUSINESSES IN ORDER TO PROMOTE GROWTH, INNOVATION, EXPANSION, INCREASED PRODUCTIVITY AND MANAGEMENT IMPROVEMENT.

THE NEBRASKA BUSINESS DEVELOPMENT CENTER PROGRAM SERVES AS AN ESSENTIAL LINK BETWEEN THE PUBLIC AND PRIVATE SECTORS BY CREATING A PARTNERSHIP THAT BRINGS THE VAST RESOURCES OF THE FEDERAL AND STATE GOVERNMENTS TO THE STORE FRONTS OF THE LOCAL BUSINESSES. THE PROGRAM UTILIZES NOT ONLY THE RESOURCES OF THE SMALL BUSINESS ADMINISTRATION, BUT ALSO, THE RESOURCES PROVIDED BY THE NEBRASKA DEPARTMENT OF ECONOMIC DEVELOPMENT, EIGHT NEBRASKA COLLEGES AND UNIVERSITIES, AND OVER SEVENTY LOCAL CHAMBERS OF COMMERCE AND BUSINESS ASSOCIATIONS. THE VAST NBDC NETWORK PROVIDES SERVICE TO AND IS SUPPORTED BY BUSINESSES REACHING TO EVERY CORNER OF OUR LARGE STATE.

IT'S HARD TO BELIEVE THAT THE NEBRASKA BUSINESS DEVELOPMENT CENTER PROGRAM STARTED AS A MERE PILOT PROGRAM ONLY A DECADE AGO. I WOULD LIKE TO ONCE AGAIN THANK CHANCELLOR WEBER AND BOB BERNIER FOR TAKING THE TIME OUT OF THEIR BUSY SCHEDULES TO COME TO WASHINGTON TO PARTICIPATE. THANK YOU MR. CHAIRMAN.

STATEMENT BY SENATOR ALFONSE M. D'AMATO
BEFORE THE SMALL BUSINESS COMMITTEE
OCTOBER 15, 1987

MR. CHAIRMAN, I WOULD LIKE TO WELCOME TO THE SMALL BUSINESS COMMITTEE THIS MORNING OUR DISTINGUISHED PANEL OF WITNESSES WHO WILL PROVIDE THIS COMMITTEE WITH A REVIEW OF THE PROGRESS OF THE SMALL BUSINESS DEVELOPMENT CENTER PROGRAM.

THE SBDC PROGRAM HAS HAD QUITE A SUCCESSFUL TRACK RECORD SINCE ITS INCEPTION AS A PILOT PROGRAM IN 1976. THESE SMALL BUSINESS DEVELOPMENT CENTERS ARE BASED IN UNIVERSITIES THROUGHOUT THE UNITED STATES AND PROVIDE COUNSELING TO SMALL BUSINESS OWNERS BY STUDENTS AND FACULTY ALIKE.

THERE ARE FORTY NINE SBDC'S LOCATED IN FORTY THREE STATES. MY STATE OF NEW YORK REPRESENTS A LARGE PORTION OF THE PROGRAM BOASTING EIGHTEEN CENTERS OF ITS OWN. THE SUNY SYSTEM HAS PLAYED A MAJOR ROLE IN PROMOTING THE SBDC'S IN ITS NUMEROUS STATEWIDE CAMPUSES.

THE TOTAL FUNDING FOR SBDC'S IN FISCAL YEARS 1987-1988 WAS \$3.3 MILLION. NEW YORK STATE'S FUNDING FOR THE SAME PERIOD WAS \$1,015,000.

THE SBDC PROGRAM HAS MET WITH ENORMOUS SUCCESS. THE CENTERS OFFER BASIC MANAGEMENT AND TECHNICAL ASSISTANCE, AS WELL AS MINORITY BUSINESS DEVELOPMENT, EXPORT PROMOTION, AND FINANCE AND MARKETING INSTRUCTION. THE BUSINESSES THAT HAVE TAKEN ADVANTAGE OF THEIR LOCAL SBDC'S HAVE FLOURISHED IN COMPARISON TO THEIR COUNTERPARTS WHO DID NOT CHOOSE TO PARTICIPATE IN SBDC'S.

I LOOK FORWARD TO THE TESTIMONY OF OUR TWO PANELS THIS MORNING. THEIR FIRST-HAND EXPERIENCE IN SBDC PROGRAMS WILL PROVIDE INVALUABLE INSIGHT TO THIS COMMITTEE.

THANK YOU, MR. CHAIRMAN.

STATEMENT BY SENATOR ALAN J. DIXON
 COMMITTEE ON SMALL BUSINESS
 OVERSIGHT HEARING ON
 THE SMALL BUSINESS DEVELOPMENT CENTER PROGRAM

THANK YOU, MR. CHAIRMAN.

THE SMALL BUSINESS DEVELOPMENT CENTER PROGRAM IS A VALUABLE TOOL FOR THE SMALL BUSINESS COMMUNITY. IT WAS DESIGNED TO PROMOTE AND ASSIST IN THE GENERATION, GROWTH AND DEVELOPMENT OF BUSINESS AND INDUSTRY. TYPICAL MEMBERS ARE BANKS, INSURANCE COMPANIES, AND OTHER FINANCIAL INSTITUTIONS WHICH ARE COMMITTED TO LENDS FUNDS TO BENEFIT THIS MOST IMPORTANT ASSET--SMALL BUSINESS.

ACCORDING TO A RECENT REPORT BY THE INSPECTOR GENERAL OF THE SMALL BUSINESS ADMINISTRATION, SIX AUDITS WERE UNDERTAKEN DURING THE SIX MONTH PERIOD FROM OCTOBER OF 1986 TO APRIL OF 1987. THESE AUDITS RESULTED IN 69 FINDINGS WITH QUESTIONED COSTS OF \$1.3 MILLION.

SOME EXAMPLES OF FINDINGS REPORTED INCLUDE:

-INADEQUATE INCOME ACCOUNTING AND ADMINISTRATIVE CONTROLS;

- CLAIMING OF DUPLICATE COSTS;
- OVERSTATING OVERHEAD RATES;
- HAVING NO WRITTEN GUIDELINES ON CLIENTS'

ABILITY TO PAY;

-NOT HAVING ESTABLISHED PROCEDURES ON CONFLICT
OF INTEREST PROCEDURES;

-NOT ACCOMPLISHING PLANNED MILESTONES.

THIS CAUSES ME CONCERN. THESE DO NOT APPEAR TO BE MINOR
OVERSIGHTS. THEY APPEAR TO BE FUNDAMENTAL, HOPEFULLY NOT
FATAL, OVERSIGHTS. A PROGRAM THIS IMPORTANT TO THE SMALL
BUSINESS COMMUNITY SHOULD BE AN EXAMPLE OF AN EFFICIENT, WELL
MANAGED OPERATION.

I UNDERSTAND THAT THE SMALL BUSINESS ADMINISTRATION HAS SOUGHT
CORRECTIVE ACTION ON MANY OF THESE ISSUES. I, HOWEVER, FIND
THE NUMBER OF PROBLEM AREAS AND THE AMOUNT OF MONEY INVOLVED
VERY DISTURBING.

I TRUST THAT THE TESTIMONY THIS MORNING WILL ALLAY MY CONCERNS
AND EXPLAIN THE ACTIONS THAT ARE BEING TAKEN TO REMEDY THE
PROBLEM AREAS AND ASSURE A WELL RUN, EFFECTIVE PROGRAM FOR THE
SMALL BUSINESS COMMUNITY.

STATEMENT FOR SENATOR JOHN F. KERRY
ON THE SMALL BUSINESS DEVELOPMENT CENTER PROGRAM
SENATE SMALL BUSINESS COMMITTEE

I am pleased that the Senate Small Business Committee has scheduled this oversight hearing on the Small Business Development Center (SBDC) program. We are fortunate to have an exceptional SBDC in Massachusetts which has won widespread recognition and support from our small business community.

This hearing is critical because many observers have noted that over the last year and even more so over the last six months, there has been a critical breakdown in the relationship between the Small Business Administration (SBA) and the SBDC. To be more precise, the Massachusetts SBDC reports to me that while they have a good relationship with the SBA district and regional offices, they are experiencing some problems which appear to be coming from SBA's central office.

The Massachusetts SBDC was created as a full and equal partner with SBA. The State provides fifty percent of the program's funding. Today, however, SBA is attempting to treat it as a contractor and not as an equal partner. This is unacceptable to the University of Massachusetts which delivers the program in the State and which signed a cooperative agreement, not a contract, with SBA. This cooperative agreement demands a partnership relationship, including an equal status in all efforts to implement the congressional intent of the program.

Although SBA's new management attitude toward the State and our SBDC has manifested itself in different ways, it is most clearly evident in the regulations SBA has proposed for the SBDC program. These regulations do everything from assuming the State's dollar contribution to the program becoming the domain of SBA, to intruding into state and university personnel and fringe benefit policies.

While it is appropriate that the SBA develop regulations governing this SBDC program, I believe that these regulations should be developed with the maximum degree of sensitivity to the successful partnerships which have already been achieved. I hope that this hearing will help resolve these differences.

Statement of Senator David Boren

MR. CHAIRMAN:

I would like to thank you for bringing the Committee's attention to the Small Business Development Center (SBDC) program. I think it is time that we recognize the benefits of a strong SBDC program.

The Oklahoma Small Business Development Center Network is providing assistance and resources to Oklahoma's small business community. The Network links resources of the Small Business Administration, state and local governments, regional universities, community colleges, and other educational institutions with the private sector. The major objective of the Network is economic growth through support of small business.

Mr. Chairman, let me give one example of what the Oklahoma Small Business Center (OSBDC) is doing to further the economic growth of small business. OSBDC and Tinker Air Force Base, in Midwest City, Oklahoma, have begun a cooperative effort to simplify purchases under \$5,000. This program is called the Small Purchases Opportunity Program (SPOP).

OSBDC has a procurement office at Rose State College, located in Midwest City. This office will be assisted by the other

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OSBDC's located at Central State University (Edmond), Northeastern State University (Tahlequah), Northwestern State University (Alva), Southeastern Oklahoma State University (Durant), Southwestern Oklahoma State University (Weatherford), and East Central University (Ada).

Selected contracts, whose products will be purchased competitively, will be processed by the OSBDC and awarded by Tinker. The items will be primarily aircraft parts produced by machine shops, sheet metal fabricators, and some plastics firms. OSBDC will provide bid packages and assistance with quality control and inspection requirements. After the contract is awarded OSBDC will continue to provide procurement and technical assistance.

Many Oklahoma firms have not previously bid on Federal Government contracts because of inexperience and have been discouraged by real and imagined government red tape. Under SPOP red tape is cut to an absolute minimum. The contract is a simplified purchase order. Very little administrative reaction between the small business bidder and the procuring officer is expected. With the exposure to government procurement and the experience gained by satisfactorily performing on small contracts, we believe Oklahoma small businesses will, on their own initiative bid on the larger solicitations. To date SPOP is responsible for 25 contracts per week going to small firms that have never before

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done business with the government. When the contract level is raised to \$25,000 SPOP is expected to produce over 100 contracts per week.

Mr. Chairman, this is just one reason why I feel the SBDC program is a winner. I would be very concerned with any changes in the regulations that would disturb the present balance between the Centers and the SBA. I look forward to today's testimony and working with the Committee to ensure the future of the SBDC program.

The CHAIRMAN. Number one, this program was authorized back in the 1970s, and there was authorizing statute in 1984 that sets out pretty much what the relationship of the State and Federal Government is supposed to be here. This program was operated all those years without regulations.

My first question is, What course of conduct or what problems have you had with this program that has caused SBA to want to issue regulations governing the operation of SBDCs?

Mr. PARRISH. Senator, that, first of all, it is not suddenly that the agency has been trying to publish regulations. Apparently, this has been going on for a couple of years, even since the public comment period.

As the program has grown to 49 SBDCs, to maintain some uniformity and consistency we feel it is important to have some guidelines, to establish parameters for our project officers, and to sit down and write an effective cooperative agreement.

The CHAIRMAN. Who has been exceeding what you would consider to be the proper parameter?

Mr. PARRISH. One of the problems we find in administering the program is what we do in one area for one SBDC then becomes necessary to do for another SBDC, and you start trying to manage those differences. You find you lose control or you do not have control. You do not have the consistency in administering the program.

One thing I would also add, Senator, is I think the cooperative agreements have to be looked at from two different perspectives. One is that in terms of the grant aspect of it where we are talking about the financial portion of that cooperative agreement and the fiscal responsibility which we have in managing that program.

I think this is where more attention needs to be focused in terms of the regulations. We are not talking about over-regulating or micromanaging in the deliverables where the services that need to be delivered in each locale by each SBDC can be uniquely different. I agree that that ought to be, as I said in my opening statement, negotiated in a very open forum with the cooperative agreement.

The CHAIRMAN. On page 2 of the regulations, the reg reiterates a portion of the 1984 act which recognizes that there is a partnership between the Government and the State. Then it says, "However, the final authority for the selection of the SBDCs, the terms of the cooperative agreement and the establishment of program policy rests with SBA."

As a former Governor, and I am sure Senator Bond feels very similarly because we both experienced very much of this as Governors, how do you think a Governor is going to feel, putting up \$1.4 for every \$1 the Federal Government puts up, and he sees a regulation like this which effectively usurps virtually all of his or the State's authority?

Do you think that is conducive to an additional match by them or enthusiasm for the program when they see a regulation worded like that?

Mr. PARRISH. Apparently, it has not been too stifling, Senator, in the sense that the program has now grown to 49 SBDCs and we are anticipating possibly 3 more coming on.

The CHAIRMAN. That is without regulations, though.

Mr. PARRISH. The regulations really, in a sense, formalize what we have been operating under, SOP and guidelines, for several years. I see some real consistency, and the regulations that we are proposing would be guidelines that we have been using historically.

I would make reference to the so-called Alexandria Accord, from which a lot of those regulations were lifted out very consistently.

The CHAIRMAN. Ms. Albertson, let me ask you this question. Give me your honest, belt buckle feeling about how successful or unsuccessful this program has been.

Ms. ALBERTSON. I think it has been very successful. I think it has been successful in a number of areas that is difficult, I think, in many ways for the Federal system to recognize.

It is a unique program, in that it is one of the few programs which mandates a partnership between the Federal Government and State and local organizations.

The legislation which established the program was written in such a way so as to make the program able to be run in what I call a State-specific way; that is, it is not a cookie cutter Federal program. The Arkansas SBDC looks nothing like the Maine SBDC and looks nothing like the Connecticut SBDC. The SBDCs can be organized and developed to fit what the State's needs are in the way of small business.

I think one of the best examples of that is the fact that there are now four State Department of Commerce-led SBDCs, which means that in that State it was the consensus of both the agency and the district office that the best organization to operate this kind of service to the small businesses in that State would be better located in the State Department of Commerce than it would in an educational institution. So that was what was determined, and in those instances it works very well.

The creativity of the program, I think, has been extraordinary and way beyond what even the legislation envisioned.

For example, although located in the Business Development Office of SBA and thereby sort of typecast, if you will, as a training and counseling resource, in the course of my association with the program in the last 5 years the SBDCs have become much more than that.

We only measure at this point in the agency numbers of people trained and numbers of people counseled, but the SBDC has become, in many ways, a broad-scaled economic development source for small businesses in that State.

For example, there are some SBDCs that do an enormously effective job in capital formation work with small businesses in the State; finding venture capital, putting together venture capitalists with small businesses.

The Maine SBDC, for example, a couple of years ago did a re-think, if you will, of the fishing industry in Maine, and in the course of that reoriented the whole marketing approach that the State had used for its fishing industry, which did an enormous amount to help small businesses, most of whom are fisherpeople in the State. Yet, it was not an ipso facto training and counseling activity. It was a very sophisticated marketing activity.

In North Carolina, the SBDC was influential in getting the State legislature to appropriate \$50 million for venture capital for small businesses in that State.

So the parameters of the program are enormously wide, and they really are dictated by what is needed in that State, which is one of the reasons, I think, that the SBDC in a sense and we in the Federal bureaucracy have a hard time negotiating with each other in terms of what we are about.

We are accustomed to looking at a resource, if I might use that word, particularly a business development resource, as being a kind of self-contained, controlled unit, and the SBDC, because of this partnership relationship with the State which is in the legislation, is required to submit a State plan. We require the authority of the Governor of the State to approve that State plan before we can fund that SBDC.

Because of that multiple partnership, I think that is one of the reasons why we are having some difficulty in the bureaucracy, looking at it in a way that is as creative as it ought to be.

The CHAIRMAN. Let me say I do not have any strong feelings one way or another about the regulations. That is what I am trying to figure out, how I do feel about it.

I must say, one of the reasons I want a GAO study of this program is because I am not at all impressed with the headcount, how many people have been counseled and how many people have been contacted, and so on.

That reminds me frequently about how many people walked the aisle the night before. That is not necessarily a good measure.

Mr. PARRISH. Senator, if I might add something, I think that we have to take a look at the regulations. They are consistent with what you are saying. We do not want to stifle that from the perspective of the deliverables at the State level.

On the other hand, when we are talking about the regulations and I think of what we are trying to accomplish with well-written regulations, that is one of the reasons why the Administrator made the decision to go for public comment again for 30 days, to get well-written regulations which deal with the area of oversight and management, which is the charge of responsibility which he has. I think we need to recognize that need.

The other areas with which we need to concern ourselves with are consistency and efficiency.

The CHAIRMAN. Who hires the directors of these programs?

Mr. PARRISH. The directors of the SBDC Program?

The CHAIRMAN. Yes.

Mr. PARRISH. The SBDC with concurrence of the project officer.

The CHAIRMAN. SBA does not seek to influence that one way or another?

Mr. PARRISH. The SBA has outlined, as I mentioned earlier, the Alexandria Accord as input and has something to say regarding the hiring of that director. They can oppose them or accept them. They are consulted, but the ultimate hiring is done by the SBDC.

The CHAIRMAN. I will leave to Senator Bond the problems in Missouri, but there is a case where you are saying either you get rid of this guy or you are finished. Now, that is not regulatory on the

part of SBA. That is just saying we are going to terminate the program unless you dance to our tune.

As I say, I do not want to preempt Senator Bond. I assume he wants to get into that.

Senator BOND. I have a few questions along that line, Mr. Chairman.

The CHAIRMAN. Maybe it is justified, but I am saying, on the face of it, it sounds like a highhanded tactic. If I were Governor of Missouri, I would probably take a dim view of that, particularly if he was my man.

Mr. PARRISH. Senator, to focus back on the issue, apparently that can happen with or without regulations, and I cannot see how that really impacts on the implementation of regulations.

The CHAIRMAN. We are going to have to run to vote. We will stand in recess for 10 minutes while everybody runs to vote.

[A brief recess was taken.]

Senator BOND [presiding]. The Committee will come to order. In the absence of the Chairman until he returns, I am going to assume the initiative to reopen this hearing because we have a few things to talk about, and I thought this might give us an opportunity to get started.

As has already been indicated, Mr. Parrish, we are well aware of the ongoing dispute between the SBA and the Missouri SBDC Program over, I gather, personnel and funding matters, and we are very greatly disturbed by it. From what I have heard, the SBDC Program in Missouri was operating very well.

With apologies, Mr. Chairman, I have started.

The CHAIRMAN [presiding]. Please proceed.

Senator BOND. I would like to ask you, first, in your opinion, is the SBDC Program operating and accomplishing its objectives in Missouri? If not, how is it failing the small business community?

Mr. PARRISH. From the reports that I have seen, Senator, the SBDC Program in Missouri is doing well, and it is servicing the constituency.

One of the things that I find interesting about these SBDC Programs is you do not compare one with another. Each one is uniquely individual, and so looking at the reports, which is the only way we can evaluate them, the program on balance seems to be doing well.

Senator BOND. Well, that was our opinion, too. Now, I guess that makes it even more interesting to know how this dispute arose.

If the SBDC is accomplishing its objectives being run by St. Louis University, why has the SBA taken what I assume is the very unusual step of telling the program that it must terminate its director?

Mr. PARRISH. Let me make a general statement, and then if you want to get into specifics I would defer that to Mr. Cox, who has handled this particular case. It is his area of responsibility.

This is not a new problem. It is one that has been ongoing for a couple of years, I am told. It predates my experience at SBA.

It got to a point where it appeared to me that the problem was becoming the over-riding issue, and we were focusing a lot of time and attention on personalities and conflicts within SBA and within the SBDC and, in so doing, we have a tendency to lose sight of

what we are there to do, that is, to run and administer the SBDC Program with 18 subcenters and all the delivery programs that we have had out there.

It seemed to be growing to the point where it was unmanageable. Whenever we have conflicts and whenever we have disputes, generally we try to get those worked out. Now, there were a lot of questions on both sides. I made the decision that it seemed to me that in the best interest of maintaining a good SBDC in Missouri, we would be better served by removing both the SBA and SBDC people involved and getting new people.

I can say that I was concerned about the behavior of some of the people on the SBA side of it as well as on the SBDC side.

I think we could find in the SBA organization people of equal competence that could serve in that capacity, and I am sure that the University of St. Louis could as well. Why should we focus on a continual problem there which seemed to be more perceptive than substantive and get on about our business; that is, delivering a good program to the small business community?

Senator BOND. I am still puzzled about who is robbing the train, you or Jesse James. I understood this is a partnership, and I certainly would have no quarrel with an agency administrator or responsible official who wanted to change the agency personnel, but I am perplexed by where you get off telling St. Louis University who their employees are to be and why, you are in a position to tell the university, a partner and one that brings in a good part of the funding what their personnel decisions are.

Maybe Mr. Cox would like to comment on this.

Mr. PARRISH. May I expand on that one step further, Senator?

Senator BOND. Please.

Mr. PARRISH. In a conversation I had on the telephone with Dean Emery Turner, I had suggested basically the same thing to him that I have to you and said it seems to me that it is inevitable. Something has to give; something has to happen, and then we can get into the technicalities.

This was the conversation I had with him, and he did not disagree. He said, I guess inevitably that is something that has to happen. We have not been able to resolve this conflict, and so it was the suggestion that he reassign Mr. Hale and we change our people and focus back on the business of running an SBDC and working together in this instance. There is a pretty good history that apparently goes back on this conflict.

So that is the conversation I had with him, and he did not disagree with the conclusion at which I had arrived.

Senator BOND. Mr. Cox, would you care to comment?

Mr. Cox. Senator, the agency had three choices in this instance because of the history of the case.

No. 1, if it was deemed feasible to have someone execute the co-operative agreement and continue on in the status that we had been, and that was shooting fodder at each other. I think there is enough blame on both sides on this and it could not be resolved.

No. 2, we could have said that we are not going to renew the co-operative agreement, and the SBDC's operation would have died on September 30. We did not feel that that was a good alternative.

No. 3, let us get together and work this out by removing parties on both sides; go into a 90-day extension; and have those problems resolved in that period and continue the subcenters' operation under existing legislation.

Personally, I think that is a problem of the current legislation. I think when any partner can hold hostage all the subcenters in the State to win their point, it is not carrying out the intent of Congress.

My personal opinion is that perhaps we should look at some type of emergency provision in the legislation that would allow the agency to continue the subcenters' operation while seeking out a new lead center. Basically, if a lead center says they do not want to continue the partnership anymore, it takes a year to refund a new lead center. In the meantime, all those subcenters fall.

Our prime concern was keeping those subcenters open. True, we could have signed that agreement, but then when payments come due, if you still are having fights who is going to sign off on the payments to the universities?

I think the key is having people there that can have professional respect for one another and get along. If you do not have that, then you have to make changes or the whole system is going to fall. That is how we arrived at our options.

Senator BOND. Let me ask Mr. Cox or Mr. Parrish, perhaps, do you have dispute resolution procedures?

Mr. Cox. Yes. In this case, that procedure was not kicked in because we did not have a complete application. As I speak to you today, I am told that we do not have a complete proposal.

There was no dispute in the conditions of the cooperative agreement. The problem was generated by how are we going to get along, even if we continue the relationship. I have, back in the office, about a 3-inch binder full of fodder that was being thrown back and forth between SBA and the SBDCs in the last 2 or 3 years. It is untenable to continue a relationship like that.

Mr. PARRISH. Excuse me. I would like to make a clarifying point, and that is the conflict resolution process is part of a recommended policy guideline. It is not a regulation. It is not enforceable on either side. It is just something that was agreed to as a process for resolving conflict.

I just state that in light of what we have been talking about in terms of regulations that are bilateral.

Senator BOND. I would like to ask Ms. Albertson if she has had any experience with the St. Louis University situation.

Did you have any evaluation of that program in your previous position?

Ms. ALBERTSON. Yes. I will answer as best I can. I might say I am a little inarticulate this morning because my house was burglarized this morning about 4 a.m. while I was present. I slept through it, as did my very expensive alarm system. [Laughter.]

If I sound a little shaken up, it is because I am a little shaken. I will try to be as articulate as I can. I am not quite myself, of course.

Let me go back. The conflict resolution policy of the agency, to make sure you understand, was part of what Stan has been referring to as the Alexandria Accord. That was a meeting that was

held in 1984 between the agency and the association of SBDC directors and SBA field people. It was a meeting to sit down and work out our policy differences, because we did have some significant policy problems in the program at that time.

I want to describe this if I may because I think it is important for you to understand its role in the policy and in the management of the program.

It was also put together on the eve of the reauthorization legislation of the program, which was in August 1984. This meeting was held in August 1984.

The conflict resolution came about because the agency had, under my direction, sought to decentralize the program; that is, when I took the program over in late 1982, it was run out of the central office. The position I occupied was a legislatively established position. It is in the law, and that person was supposed to be in total charge of the program.

It was my view at the time that the program would work best if it were decentralized because of the need to tie it in with State and local organizations to get State support and have the local autonomy. It seemed essential to me to get local decisionmaking.

So the operations of the program were decentralized at that time. The Congress did not like that, the House Committee in particular. So when they put together their version of the reauthorization legislation, they recentralized the program. At the time, hearings were held, and the agency went up to discuss with the Congress this problem of why should we not decentralize this program.

The Association of SBDC Directors was influential in persuading the Committee at that time to let the agency, in a way, decentralize the program. As a protection for the SBDCs, the conflict resolution policy was developed jointly by the Association of SBDC Directors and SBA.

All that conflict resolution policy said was that if a problem at the district level could not be solved, it had to be forwarded within 15 days to the regional level. If it could not be solved at the regional level, it then had to be forwarded to the central office, and the person who occupied the legislative position would make a decision and that decision would be binding on both parties.

Since the initiation of that policy, there have been two conflict resolution invocations, if I may use that word. One was from the Wichita SBDC last year, which went the full route and was resolved at my level. The other was invoked this year by the Missouri SBDC, which occurred in the spring of this year.

Now, last year there was some dispute in Missouri because of the perception that the regional office had that the proposal being provided by the SBDC for the State of Missouri did not incorporate all the things that they wanted. There was no official conflict resolution utilization last year at all.

There was a meeting between me and the then AA for Business Development, the person who preceded Mr. Cox, and the Regional Administrator, in which I described that the policy of the agency was that if you had a problem with the proposal, that that proposal process had to be negotiated at the district office level, and that the regional level was a review process only.

Mr. Powell seemed to understand that. It did delay the funding of the proposal. We did have to issue an interim letter, but there was no invocation of the conflict resolution policy at that time.

So when you talk about a history of problems with the SBDC in Missouri, if you use the conflict resolution as a measuring stick this is the first time that that has been invoked. We have had some problems, and I admit that, but the severity of the problems were not such as to need the conflict resolution until this year.

Senator BOND. Is it my understanding that this is a personality conflict? Is that the nature of the problem? Was there any waste or fraud in the program or any documented failure to accomplish its objectives?

Mr. Cox. The action was taken based solely on not being able to have local people get along and proceed. We do have an ongoing audit at the SBDC in Missouri. I certainly cannot comment at this time on that. We expect that audit to be completed sometime in the future. I could not get a date from the Inspector General at this time.

Senator BOND. Let me ask, Mr. Parrish. You said the application is still incomplete. What is the problem with the application?

Mr. PARRISH. The process, Senator, is that prior to the signing of cooperative agreement, the documents are supposed to be provided to SBA by April 15.

At that point, they are reviewed, and then any deficiencies are noted and forwarded on to the SBDC for a subsequent meeting in May, 30 days later, whereby these deficiencies in the application should be filled in and taken care of.

The process then proceeds in processing the cooperative agreement.

As I understand it, the letter was sent in April. The letter was not responded to or the compliance was not made in May, and as far as I know compliance still has not been met in terms of meeting the needs of filling out, the compliance and the cooperative agreement.

Mr. Cox can address that much better than I, if you would, please.

Mr. Cox. On May 4 a memo was sent to Mr. Hale regarding the SBDC 1988 proposal, stating that SBA could not give further consideration to said proposal until all the elements contained in the program announcement were met.

I do not have those elements with me this morning; however, we will certainly provide them to you if you wish.

I have also asked for a more indepth chronology of events than what I do have right now and also requested that the regional office send to me the total files of the Missouri SBDC.

Senator BOND. I appreciate your indulgence.

The CHAIRMAN. I want to point out to the Committee Members, I am always very reluctant to interrupt a line of questioning or put limits on, but we have to finish here in 1½ hours, and we have a rather long list of witnesses to go.

Senator Karnes.

Senator KARNES. I have no questions.

The CHAIRMAN. Thank you, Senator Karnes.

Senator Pressler.

Senator PRESSLER. I have no questions.

The CHAIRMAN. I have a few questions to submit in writing, and ask for your very prompt response to those.

Gentlemen, Ms. Albertson, thank you very much for being with us this morning.

[Material referred to follows:]



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OCT 30 1987

Honorable Dale Bumpers
Chairman
Small Business Committee
428A Russell Senate Office Building
Washington, D. C. 20510

Dear Chairman Bumpers:

This is in response to your request of October 19, 1987 requesting responses to certain questions that came out of the oversight hearing on the Small Business Development program.

I hope this submission assists you and the staff and if we can be of further assistance, please let us know.

Sincerely,

Stanley B. Parrish
Associate Deputy Administrator
for Special Programs

QUESTIONS FROM SENATOR BUMPERS AND ANSWERS BY MR. PARRISH

1. "YOU STATED IN YOUR TESTIMONY THAT SOME PEOPLE WANT VERY STRONG REGULATIONS AND OTHERS WOULD RATHER HAVE NO REGULATIONS AT ALL. CAN YOU TELL ME WHO IT IS WHO WANTS STRONG REGULATIONS OUTSIDE OF THE SBA?"

MY STATEMENT INCLUDED THE VIEWS EXPRESSED INTERNALLY AT THIS AGENCY, AND THE VIEWS OF OMB WHO CLEARED MY TESTIMONY.

"HAVE THE SBDC'S EVER ASKED FOR REGULATIONS? IF SO PLEASE PROVIDE WRITTEN DOCUMENTATION OF THAT REQUEST."

TO THE BEST OF OUR KNOWLEDGE, THE SBDC'S HAVE NEVER REQUESTED PROGRAM REGULATIONS.

1a. "DID NOT THE SBA'S NATIONAL ADVISORY BOARD MEET RECENTLY IN BOSTON AND VOTE AGAINST A RESOLUTION PROPOSED BY SBA IN SUPPORT OF SBDC REGULATIONS? (PLEASE PROVIDE A COPY OF THAT RESOLUTION.)

TO THE BEST OF OUR KNOWLEDGE, THERE WAS NO SUCH RESOLUTION PRESENTED. WE HAVE INCLUDED TWO RESOLUTIONS THAT PERTAIN TO SBDC'S FOR YOUR REVIEW.

2. "WHAT OCCURRENCES, IF ANY, HAVE SUGGESTED THE NEED FOR REGULATIONS?

THERE HAVE BEEN ENOUGH INDICATIONS THROUGH AUDITS THAT THE CURRENT METHOD OF OPERATION IS NOT SUFFICIENT. WE HAVE INCLUDED COPIES OF AUDIT REPORTS ON THE SBDC PROGRAM. (SPECIAL NOTE: THESE AUDIT REPORTS ARE BEING SUBMITTED FOR THE REVIEW BY COMMITTEE MEMBERS AND THE COMMITTEE STAFF ONLY AND CANNOT BE RELEASED IN ANY FORM WITHOUT THE WRITTEN AUTHORIZATION OF THE INSPECTOR GENERAL OF THE SMALL BUSINESS ADMINISTRATION.)

"WHY ARE THE OMB CIRCULARS AND SBA PROGRAM ANNOUNCEMENTS AND SOP'S NOT SUFFICIENT TO OFFER GUIDANCE AND ENSURE FAIRNESS AND UNIFORMITY?"

EXPERIENCE HAS SHOWN (THE AUDIT REPORTS ARE AN EXAMPLE) THAT SBDC'S ARE HAVING PROBLEMS IN CORRECTLY IMPLEMENTING THE PROGRAM USING SEPARATE GUIDANCE DOCUMENTS. THE REGULATIONS WILL, FOR THE FIRST TIME, PLACE PROGRAM PROCEDURES IN ONE PLACE.

"-IN FACT, DO NOT CERTAIN OMB CIRCULARS, SUCH AS A-21, SPECIFY THAT AGENCIES SHOULD REFRAIN FROM ISSUING REGULATIONS WHICH MAY CONFLICT WITH OR COMPLICATE THE PROCEDURES ALREADY SPECIFIED IN THE CIRCULARS UNLESS THE AGENCY CAN SHOW A REASON WHY SUCH REGULATIONS ARE NEEDED?"

THE OMB CIRCULARS ARE GUIDANCE DOCUMENTS AND ARE NOT MEANT TO SERVE EVERY NEED. AGENCIES ARE PERMITTED TO EXPAND THE COVERAGE, IF IN THEIR OPINION, THE NEED EXISTS. CONSOLIDATING THE VARIOUS GUIDANCE DOCUMENTS SIMPLIFIES THE PROCESS.

3. "DID THE GENERAL COUNSEL'S OFFICE EXAMINE OTHER PROCEDURES USED BY THE NUMEROUS AGENCIES WHICH MAKE GRANTS TO UNIVERSITIES, SUCH AS HHS, DEPARTMENT OF EDUCATION AND USDA, AND CONFER WITH SUCH AGENCIES BEFORE DECIDING TO PUBLISH REGULATIONS AND BEFORE THEY BEGAN TO DRAFT THE REGULATIONS? IF NOT, WHY NOT?"

ALTHOUGH THE POLICY DECISION TO DRAFT REGULATIONS WAS MADE PRIOR TO EXAMINING OTHER AGENCIES' REGULATIONS, SBA'S OFFICE OF GENERAL COUNSEL DID REVIEW OTHER AGENCIES' REGULATIONS PRIOR TO DRAFTING REGULATIONS CONCERNING CERTAIN ISSUES. SEE, FOR EXAMPLE, ON THE ISSUE OF GRANTS/COOPERATIVE AGREEMENT APPEALS PROCEDURES: DEPARTMENT OF HEALTH AND HUMAN SERVICES REGULATIONS AT 45 CFR PART 16 AND ENVIRONMENTAL PROTECTION AGENCY AT 40 CFR PART 30; ON THE ISSUE OF FEDERAL RESTRICTIONS ON MATCHING CONTRIBUTIONS: DEPARTMENT OF INTERIOR REGULATIONS AT 30 CFR SECTIONS 402.6-7, DEPARTMENT OF LABOR REGULATIONS AT 29 CFR SECTIONS 1950.5-11, AND NATIONAL ARCHIVES AND RECORDS ADMINISTRATION REGULATIONS AT 36 CFR SUBPART C. SINCE THE SBDC PROGRAM IS NOT A GRANTS PROGRAM, BUT IS ADMINISTERED THROUGH A COOPERATIVE AGREEMENT, SBA CONSULTED WITH REPRESENTATIVES OF THE OFFICE OF MANAGEMENT AND BUDGET FOR REFERENCES TO OTHER SIMILAR COOPERATIVE AGREEMENT PROGRAMS. NONE WERE IDENTIFIED.

4. "IN WHAT WAYS AND FOR WHAT REASONS DO YOU BELIEVE THAT THE SBDC PROGRAM SHOULD BE ADMINISTERED DIFFERENTLY FROM OTHER GRANT PROGRAMS? WHY?"

AS STATED ABOVE, THE SBDC PROGRAM IS ADMINISTERED THROUGH A COOPERATIVE AGREEMENT AND NOT A GRANT AND THEREFORE IT REQUIRES DIFFERENT IMPLEMENTATION REQUIREMENTS.

5. "MR. WARREN PURDY, THE NEW CHAIRMAN OF THE ASSOCIATION OF SBDC'S, INDICATED IN HIS TESTIMONY THAT THE ASSOCIATION CONTRACTED A FEW YEARS AGO FOR A STUDY OF THE ECONOMIC IMPACT OF THE SBDC PROGRAM WHICH INDICATED THAT SBDC-COUNSELED SMALL BUSINESSES MADE AN IMPRESSIVE CONTRIBUTION TO THE LOCAL ECONOMY BY CREATING NEW JOBS AND ADDING TO STATE AND LOCAL GOVERNMENT REVENUE.

-DID SBA CONTRACT WITH MEGAMETRICS,[sic] INC. FOR A SIMILAR STUDY TO CONFIRM THE RESULTS OF THE ASBDC STUDY?"

THIS AGENCY DID CONTRACT WITH METAMETRICS, INC. FOR THE STUDY "THE SMALL BUSINESS DEVELOPMENT CENTER PROGRAM: AN ANALYSIS OF SALES AND EMPLOYMENT IMPACT" THE STUDY WAS NOT TO CONFIRM OR DENY ANY PREVIOUS STUDIES.

"WHAT WERE THE RESULTS OF THAT STUDY?"

WE HAVE INCLUDED A COPY OF THE STUDY FOR YOUR REVIEW.

" WERE THOSE RESULTS SHARED WITH THIS COMMITTEE OR OTHERWISE MADE PUBLIC? PLEASE PROVIDE THE COMMITTEE WITH A COPY OF ANY STUDIES WHICH SBA HAS CONDUCTED INTERNALLY OR BY CONTRACT WHICH EVALUATE THE SBDC PROGRAM."

THE STUDY WAS PROVIDED TO THE ASSOCIATION. WE HAVE INCLUDED A COPY OF THE REPORT WITH THIS RESPONSE. WE HAVE ALSO INCLUDED A STUDY COMPLETED IN 1983 BY BERKELEY PLANNING ASSOCIATES TITLED "COST STUDY OF THE SMALL BUSINESS DEVELOPMENT CENTER DELIVERY SYSTEM AND THE SMALL BUSINESS ADMINISTRATION'S (SBA'S) MANAGEMENT ASSISTANCE DELIVERY SYSTEM". WE HAVE ALSO INCLUDED A SUMMARY OF A STUDY BY CENTAUR ASSOCIATES, INC., "AN EVALUATION OF THE ECONOMIC IMPACT OF THE SMALL BUSINESS DEVELOPMENT CENTER PROGRAM" DATED APRIL, 1983. THIS STUDY CONTAINS TWO VOLUMES AND MANY PAGES. IF THE COMMITTEE WANTS THE TOTAL STUDY FOR REVIEW, WE WILL MAKE IT AVAILABE. WE HAVE ALSO INCLUDED A SECOND STUDY BY METAMETRICS "RETROSPECTIVE STUDY ON THE IMPACT OF SBA BUSINESS DEVELOPMENT PROGRAMS". THIS STUDY LOOKED AT THE OTHER STUDIES PERFORMED AND GIVES AN OVERVIEW OF THE PURPOSES OF THE STUDIES, THE CRITERIA USED AND A REVIEW OF THE CONCLUSIONS REACHED.

(Material retained in Committee files.)

6. "ABOUT TWO YEARS AGO WAS THERE NOT AN INITIATIVE BY THE KANSAS CITY REGIONAL OFFICE TO REMOVE THE SBDC FROM SAINT LOUIS UNIVERSITY AND PLACE IT WITH THE STATE OF MISSOURI?"

WE HAVE BEEN ADVISED THAT THE KANSAS CITY REGIONAL OFFICE WAS CONTACTED BY THE STATE OF MISSOURI ASKING WHETHER THEY COULD SUBMIT A PROPOSAL. THE REGIONAL OFFICE ADVISED THEM OF THE PROCEDURES. THE PROPOSAL WAS NOT TIMELY AND WAS NOT ACCEPTED BY THE AGENCY.

7. "IS IT TRUE THAT DEAN TURNER OF THE UNIVERSITY SOUGHT TO INVOKE SBA'S CONFLICT RESOLUTION PROCEDURE WITH RESPECT TO MR. HALE?"

- WHAT WAS YOUR RESPONSE AND THAT OF MR. COX TO THAT REQUEST?

- WHY WAS THE PROCEDURE NOT INVOKED?

I DID NOT RECEIVE A REQUEST AND THEREFORE DID NOT RESPOND. HOWEVER, THERE WAS A REQUEST RECEIVED BY MR. COX AND HE WAS IN CONSTANT CONTACT WITH DEAN TURNER AND MR. HALE IN REGARDS TO THE REQUEST. CONFLICT RESOLUTION PROCEDURES WERE NOT TOTALLY IMPLEMENTED BY THE AGENCY BECAUSE NEGOTIATIONS AT THE LOCAL LEVEL WERE NOT PURSUED IN GOOD FAITH. ENCLOSED IS AN ATTORNEY'S OPINION REGARDING THE CONFLICT RESOLUTION ASPECT. MR. COX NOTIFIED DEAN TURNER AND MR. HALE OF THE PROCEDURE THAT THIS AGENCY WAS GOING TO USE IN TRYING TO SOLVE THE OVERALL PROBLEM OF RELATIONS BETWEEN SBA AND THE SBDC. NEITHER MR. HALE NOR DEAN TURNER OBJECTED TO THE PROCEDURE

8. "MR. PARRISH, YOU MENTIONED IN YOUR TESTIMONY BEFORE THE COMMITTEE THAT THE CONFLICT RESOLUTION PROCEDURE SET FORTH IN THE COOPERATIVE AGREEMENT BETWEEN SBA AND SAINT LOUIS UNIVERSITY WAS "UNENFORCEABLE." WHAT IS THE REASONING BEHIND THAT STATEMENT? WERE YOU IMPLYING THAT NO PORTION OF THE COOPERATIVE AGREEMENT IS ENFORCEABLE BY EITHER PARTY?"

-HAS YOUR COUNSEL ADVISED YOU THAT THE PROCEDURE IS NOT ENFORCEABLE AS A FINAL AGENCY ACTION WHICH COULD BE CHALLENGED IN THE U. S. DISTRICT COURT UNDER PROVISIONS OF THE ADMINISTRATIVE PROCEDURE ACT?

MR. PARRISH'S TESTIMONY REFERS TO THE CONFLICT RESOLUTION POLICY AND NOT THE COOPERATIVE AGREEMENT. SEE PAGE 34 STARTING AT LINE 23. "MR. PARRISH: EXCUSE ME. I WOULD LIKE TO MAKE A CLARIFYING POINT, AND THAT IS THE CONFLICT RESOLUTION PROCESS IS PART OF A RECOMMENDED POLICY GUIDELINE. IT IS NOT A REGULATION. IT IS NOT ENFORCEABLE"

REGULATIONS WOULD BE BINDING ON BOTH PARTIES HOWEVER, POLICY GUIDELINES CAN BE WAIVED BY THE AGENCY.

9. "IN A LETTER DATED SEPTEMBER 25, 1987, (ATTACHED) JOHN GRIM, SBA'S AGREEMENT OFFICER, NOTIFIED DEAN EMORY TURNER OF SAINT LOUIS UNIVERSITY THAT THE SBDC WOULD RECEIVE A THREE-MONTH EXTENSION ON FUNDING ONLY IF DIRECTOR FRED HALE WAS REASSIGNED OUTSIDE THE SBDC PROGRAM. THAT LETTER MAKES NO REFERENCE TO ANY FACTS OR ALLEGATIONS JUSTIFYING MR. HALE'S DISMISSAL. ON WHAT BASIS, THEN DID SBA CALL FOR MR. HALE'S DISMISSAL?

-DID THE AUDIT MADE AT THE MOSBDC IN AUGUST OR SEPTEMBER 1987 PRODUCE ANY EVIDENCE OF WASTE, FRAUD OR ABUSE ON THE PART OF MR. HALE? DID THE AUDIT SHOW EVIDENCE OF ANY WRONGDOING OR MISMANAGEMENT AT THE MOSBDC? IF SO, PLEASE PROVIDE COPIES OF THIS MATERIAL."

AS STATED DURING THE HEARING BY MR PARRISH AND MR. COX, THE PROBLEMS BETWEEN SBA AND THE MISSOURI SBDC ARE NOT NEW. IT GOT TO THE POINT WHERE THE PROBLEMS WERE BECOMING THE OVERRIDING ISSUE, AND WE WERE FOCUSING A LOT OF TIME AND ATTENTION ON PERSONALITIES AND CONFLICTS WITHIN SBA AND WITHIN THE SBDC. THE SITUATION BECAME INTOLERABLE. THERE CLEARLY WAS A NEED TO MAKE PERSONNEL CHANGES ON BOTH SIDES. THIS WAS COMMUNICATED BY MR. PARRISH AND MR. COX IN SEPARATE CONVERSATIONS WITH DEAN TURNER. AS STATED AT THE HEARINGS, THE CHANGES IN PERSONNEL HAVE NOTHING TO DO WITH THE ONGOING AUDIT. THE AUDIT HAS NOT BEEN COMPLETED AND A REPORT HAS NOT BEEN ISSUED BY THE INSPECTOR GENERAL. WE CANNOT COMMENT ON PRELIMINARY FINDINGS BUT WILL NOTIFY THE COMMITTEE OF THE FINDINGS OF THE AUDIT WHEN WE RECEIVE THE FINAL REPORT.

10. "IN A LETTER DATED SEPTEMBER 29, 1987, (ATTACHED) DEAN TURNER RESPONDED TO JOHN GRIM'S SEPTEMBER 25 LETTER STATING THAT "WE FEEL WE RECEIVED VERBAL ASSURANCE EARLY IN SEPTEMBER OUR CONTRACT WOULD BE EXTENDED FOR 90 DAYS WITHOUT CONDITIONS. IT IS OUR UNDERSTANDING THIS IS NORMAL PROCEDURE. THEREFORE WE WERE SURPRISED TO LEARN ON SEPTEMBER 24TH THE VERY ISSUE UNDER REVIEW WAS MADE A CONDITION OF THE EXTENSION."

"-DID YOU OR SOMEONE ELSE FROM SBA NOT ASSURE DEAN TURNER THAT THE 90-DAY EXTENSION WOULD BE GRANTED WITHOUT CONDITION? IS THAT NOT REGULAR PROCEDURE?"

NO SUCH ASSURANCES WERE GIVEN BY ME, MR COX OR ANYONE ELSE, TO MY KNOWLEDGE, TO DEAN TURNER. EXTENSIONS WHERE PROBLEMS EXIST ARE GIVEN ONLY WITH THE PROVISION THAT THE PROBLEMS ARE CORRECTED IN THE TIMEFRAME OF THE EXTENSION.

"IF, AS DEAN TURNER INDICATES, THE SBA AND THE SBDC WERE AT AN "IMPASSE," IS THAT NOT A CLEAR REASON TO INVOKE THE DISPUTE RESOLUTION PROCEDURE?"

DISPUTE RESOLUTION PROCEDURES ARE USED TO SOLVE FINANCIAL DISAGREEMENTS ONLY.

11. "DID MR. HALE SUBMIT A COMPLETE APPLICATION TO THE SBA FOR FY 88?"

NO

"-DID SBA EVER NOTIFY MR. HALE THAT THE APPLICATION WAS INCOMPLETE."

YES

"IF SO, DID MR. HALE RESPOND TO SBA'S REQUEST FOR MORE INFORMATION?"

ONLY PARTIALLY.

"(PLEASE PROVIDE ALL DOCUMENTATION.)

THE DOCUMENTATION IS ATTACHED.

WASHINGTON, D.C. 20415

OFFICE OF ADVISORY COUNCILS
Resolution FormatRESOLUTION NUMBER: B&ED 3to be assigned by the Regional
Advisory CouncilRESOLUTION TITLE: MAXIMIZING BUSINESS AND ECONOMIC DEVELOPMENT RESOURCESOriginator's Name: _____
to be assigned by the originator, staff and other personnelName of Council: NAC

District, regional or national or administrative

RECORD OF ACTION

Name of District Council: _____ Date: _____ Decision: _____

Name of Regional Council: _____ Date: _____ Decision: _____

Name of NAC Committee: _____ Date: 10-5-87 Decision: _____

Member Presenting to NAC: _____ Date: _____ Decision: _____

Staff Person Transmitting
to Administrator: _____ Date: _____Staff Person Transmitting
Response: _____ Date: _____

Resolving from administrative action to administrative action and administrative action

RESOLUTION STATEMENT: To ensure that SBA's Business and Economic Developmentmission remain focused on areas of greatest need:

a. In the delivery of lending and management assistance service, SBA shall be directed to increase its reliance on resources in the private sector which have expertise in its program areas.

b. To strengthen and to mandate that the Small Business Development Center Program become self-funded. Such self-funding should come from its reliance on private business and non-federal government resources.

RESERVED 1.1

BACKGROUND: _____

RESERVED 2.1

IMPLEMENTATION RECOMMENDATIONS: _____

RESERVED 3.1

WASHINGTON, D.C. 20416

OFFICE OF ADVISORY COUNCILS
Resolution FormatRESOLUTION NUMBER: BAEP 2to be assigned by the Regional
Advisory CouncilRESOLUTION TITLE: SBDC CONTROL

to be assigned by the originator, brief and concise

Originator's Name: _____ Name of Council: _____

individual or organization

District, regional or national or international

RECORD OF ACTION

Name of District Council: _____ Date: _____ Decision: _____

Name of Regional Council: _____ Date: _____ Decision: _____

Name of NAC Committee: _____ Date: _____ Decision: _____

Member Presenting to NAC: _____ Date: 10/5/88 Decision: _____Staff Person Transmitting
to Administrator: _____ Date: _____Staff Person Transmitting
Response: _____ Date: _____

Reserved for Administrator's use to assign, monitor and document specified action

RESOLUTION STATEMENT: The NAC recommends a consistent and accountable set of
performance standards for all SBDC's. These standards are to be
evaluated, monitored and reinforced to strengthen management and control
of the SBDC program.

PROBLEMS PROMPTING RESOLUTION: _____

Continued

BACKGROUND: _____

Continued

IMPLEMENTATION RECOMMENDATIONS: _____

Continued



UNITED STATES GOVERNMENT
SMALL BUSINESS ADMINISTRATION
REGIONAL OFFICE
KANSAS CITY, MISSOURI 64106

Date: October 9, 1987
Reply to: Robert L. Gangwere, Regional Counsel 
Attn of:
Subject: Missouri SBDC and the SBA Conflicts Resolution Policy

To: William A. Powell, Regional Administrator

First, it must be pointed out that there are no applicable regulations which address and regulate the unique relationship that exists between the Small Business Administration and Small Business Development Centers throughout the country. Applicable regulations were proposed in October of 1986, Federal Register, Vol. 51, No. 205, p. 37580, but have never been published as a final rule. Therefore, the only applicable authority for the Small Business Development Center Program that has the force of law is Section 21 of the Small Business Act, 15 U.S.C., Sec. 648. Naturally, Sec. 648 does not mention a "conflicts resolution policy". The only detailed guidelines that presently exist for this program are contained in SOP 60 15, SOP 60 16 "SBDC Policy Guidelines", and the "SBDC Program Announcement". These are suggested guidelines, but they are not mandatory or legally binding rules.

Obviously, SBA personnel strive to follow the Agency's SOP's and under normal circumstances do so. However, the problems arising between the Missouri SBDC and the SBA offices in Missouri are not normal. They are not disputes concerning easily identifiable individual programmatic conflicts, or conflicts of a financial or funding nature. These disputes go to the very heart of the SBA-SBDC relationship and the roles each are supposed to play under the program guidelines. As you know, the Small Business Development Center Program is supposed to be a cooperative venture or partnership between the local SBA offices and the State-endorsed organization designed to define on an annual basis, by the means of a cooperative agreement, an arrangement to provide counseling, training, and specialized support for the local small business community. Since 1983 the SBDC program has been decentralized, thus, placing the bulk of the day-to-day decision making and operation responsibility on the SBA district and regional offices. This decentralized approach is consistent with the belief that the local SBA offices and the local state-endorsed small business development organization can more effectively and efficiently design a small business program for their state than officials in Washington can.

The Conflicts Resolution Policy, as contained in the Program's policy guidelines, SOP 60 16, is consistent with the concept of decentralization. The Conflicts Resolution Policy was designed to ensure that conflicts be addressed, and resolved whenever possible, at the district level. The Conflicts Resolution Policy is designed to be

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followed in those infrequent cases when the District Office and the SBDC Director, or the proposal developer in the case of a new applicant, have attempted in good faith to resolve their differences but have failed to do so. In those rare instances the conflict is to be referred to the Regional Office which, if it determines that good faith efforts had been made at the District level, will attempt to confer with the supervisor of the SBDC Director in order to resolve the conflict. If no resolution is forthcoming at that level, then the conflict would be referred in writing to the DAA/BD/SBDC in Washington. Upon referral, the DAA/BD/SBDC would determine whether good faith efforts to resolve the issue had been made, at the regional and district levels, before attempting to resolve it at the Central Office level. Obviously, the cornerstone of the Conflicts Resolution Policy is decentralization and good faith.

In this instance it was the opinion of the Project Officer, the ARA/BD, and the Regional Administrator that the SBDC Director in Missouri had been uncooperative and unresponsive to the attempts of the Project Officer to negotiate, in good faith, the terms and conditions of a new cooperative agreement. Instead, it appears to have been the intent of the SBDC Director from the very beginning to bypass the district and regional offices and obtain approval of the "cooperative" agreement in Washington.

SBA's SOP 60 15, adopted in September of 1983, clearly lists the steps that are to be taken for the renewal of an existing SBDC (Chapter 2, Sec. A, "Process for Existing SBDC's", para. 9.) These steps are to be followed in chronological and numerical order, as listed on the flow chart identified as attachment 3, so as to ensure a smooth and efficient negotiation process. When the Project Officer in the District Office first receives the draft of an SBDC's proposal, he or she is suppose to "ensure that all necessary paperwork is completed, signed, and in proper format." Once the documentation for the proposal is complete, the Project Officer is to convene a proposal review meeting so as to iron out any programmatic or financial conflicts between the SBA and the SBDC. In the case of the Missouri SBDC the process never got that far. The SBDC Director never submitted a complete proposal. The Project Officer continually stated, both in writing and orally, that additional financial and administrative information was necessary in order for the Small Business Administration to determine whether Federal funds were being utilized properly and efficiently. That financial and administrative oversight responsibility is one of the reasons for the decentralized approach to this program. After a flurry of letters and meetings between the SBDC Director and the personnel of the SBA District Office, which failed to produce the necessary information, the entire matter and the incomplete proposal was referred to the SBA Regional Office.

The Regional Administrator met twice with the Dean of St. Louis University, the host university of the Missouri SBDC. All attempts to obtain the necessary financial and administrative information, originally requested by the Project Officer, was to no avail. Instead, the SBDC

-3-

Director and the Dean of the University consistently demanded that the incomplete proposal, without alteration or addition, be referred to the Central Office. Finally, after all attempts to resolve the deadlock had failed, the Regional Administrator and the ARA/BD contacted the DAA/BD/SBDC and the AA/BD in Washington, D.C.

Ultimately, the RA and the AA/BD agreed that, because of the SBDC's lack of cooperation and its failure to negotiate in good faith, the proposal was not to be forwarded to Washington until the necessary information was provided.



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

Honorable Dale Bumpers
Chairman
Committee on Small Business
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Per your letter of October 19, 1987, I am enclosing responses and requisite documentation to the questions you asked me to respond to.

Sincerely,

Johnnie Albertson
Ms. Johnnie Albertson
Deputy Associate Administrator
Office of MSB/COD

Enclosures

Question #1 - Did you as Deputy Associate Administrator for the SBDC Program ever give SBA's General Counsel a policy directive giving him guidance in drafting regulations? Did he ask for one? Isn't it normal procedure to give one?

ANSWER: Yes. See attached two memoranda, one to Stephen J. Hall, Acting AA/MA from DAA/SBDC, dated November 7, 1984 and the second memorandum from DAA/SBDC to Robert Webber, General Counsel, dated November 23, 1984.

QUESTION # 2- Do you think there should be regulations governing the SBDC program? Do you believe the regulations as published in the Federal Register on October 16, 1987, are consistent with the Congressional intent in PL 98-395 to create a partnership between SBA and its SBDC grantees?

ANSWER:

It is my view that Federal Regulations should be a part of the Agency's management structure governing the SBDC program under the circumstances described in the memorandum of November 23, 1984 to Robert Webber, General Counsel.

In answer to the second part of Question 2, I believe that the definition contained in the regulations is too narrow because of its exclusion of the SBDCs on a national program level. This is inconsistent with congressional intent in defining the partnership relationship between the Agency and SBDC grantees. However, the decision of the Agency to go out for further comments in the proposed regulations indicates a good faith effort on the part of the Agency to accommodate all views on the SBDC program.

QUESTION # 3 - Was the dispute resolution procedure, set forth in the Cooperative Agreement under which the MOSBDC (St Louis University) is operated ever invoked? Did the MOSBDC ever request that the procedure be invoked? If so, what was SBA's official response? Should the procedure have been invoked? Is the procedure enforceable?

Answers: The dispute resolution procedure, a financial issue, was not invoked. However, the Conflict Resolution policy of the Agency was invoked by letter to Jim Laas, ARA/BD, Region VII, on June 16, 1987 from Dean Emery Turner, St. Louis University. The request for Conflict Resolution was reiterated in a letter from Fred Hale, SBDC Director, Missouri SBDC, dated June 18, 1987, requesting the forwarding of the proposal and problem to the Central Office by July 3, 1987. On June 26, 1987, by memorandum to the Regional Administrator, Region VII, the DAA/SBDC requested regional response to the invoking of the Conflict Resolution policy by the Missouri SBDC and urging that every effort be made to resolve the problem at the district and regional levels before the time limit expired. (Written documentation is attached.)

In answer to the question should the Conflict Resolution have been invoked by the Missouri SBDC, the answer is yes. The Conflict Resolution policy was established at the request of Congress at the time of the reauthorization legislation to provide access to the legislatively created DAA/SBDC position by the SBDC Directors in those cases where the district or regional offices were unable or unwilling to solve a problem. Hence the Conflict Resolution policy provided for the solution of problems by the DAA/SBDC with a clear responsibility for the overall conduct of the program continuing to remain with the DAA/SBDC.

The Agency issued policies governing the SBDC Program in 1984 in a document called Policies and Procedures of the SBDC program. The Conflict Resolution Policy is a part of these policies and is incorporated by reference in the Program Announcement - the Request for Proposal document to which each SBDC responds when applying for funding and is a part of the Cooperative Agreement, under which each SBDC is funded and operates its program.

My response, therefore, to the question on whether or not the Conflict Resolution policy is enforceable is yes.

Question #4 - Would it have been normal procedure for SBA to grant a 90-day extension to an SBDC whose application was considered incomplete at the end of the fiscal year.

No, it would not have been normal procedure. Agency practice is to approve only complete applications. Incomplete applications are returned to the District Office for completion.

Was SBA's action, premising an extension of funding on the condition that the SBDC Director be reassigned unprecedented?

Yes.

NOV - 7 1984

Stephen J. Hall
Acting AA/NA

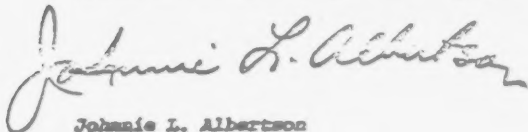
AAA/NA/Office of SBDC's

*Suggested Topics (Contractual) for Federal Regulations Regarding the
Small Business Development Center Program*

As discussed at the October 22, 1984, meeting with representatives from the Office of General Counsel (OGC), and attended by you and Freddie Collins from the Office of Management Assistance, I am enclosing a list of suggested topics (contractual) for inclusion as Federal Regulations. You will recall that we agreed to begin with contractual topics, and then develop some programmatic topics at a later date.

The suggested topics have been discussed with a representative from the Grants Management Office, and will be presented to OGC at our meeting with them on November 8, 1984.

Please let me know if you have any questions.



Johnnie L. Albertson

Enclosure

OMA:SBDC:VMCollins:sod 11/07/84

cc: NA Reading File
SBDC Reading File
Central Files
Official Files

SMALL BUSINESS DEVELOPMENT CENTER PROGRAM
TOPICS FOR FEDERAL REGULATIONS

Contractual

1. Cost Sharing or Matching Agreement.
2. Preparation, Approval and Issuance of the Cooperative Agreement.
3. Modification of the Cooperative Agreement.
4. Termination and Suspension Actions.
5. Issuance and Amendment of Notice of Awards.
6. Administrative Procedures and Cost Principles.
7. Reporting Requirements, Financial Reporting, and Performance Reports.
8. Subcontracting.
9. Disputes.
10. Patent Rights and Publication Requirements.
11. Program Income.
12. Letter of Credit Procedures.
13. Auditing Requirements and Procedures.
14. Transfer of Funds and Budget Revisions.
15. Eligibility Requirements for SBDC Participation.

Program

To be submitted following development of Contractual Topics.

November 23, 1984

Robert Webber
General Counsel

Johnnie Albertson
DAA/SBDC

Federal Regulations and the Small Business Development Centers

In a memorandum from you to Steve Hall, Acting AA/MA, dated November 6, 1984, you addressed the subject of the participation of the Association of Small Business Development Centers in the drafting of regulations for the Small Business Development Center Program.

Although I have had several conversations with members of the Office of General Counsel staff, describing the process of interaction with the Association of SBDC Directors in the matter of development of federal regulations for this Program, the memorandum reveals a continuing misperception of my attitude toward the drafting of these regulations and the role of the SBDC Directors in this activity.

I think it is important, therefore, to establish in writing for the record, both the views of this office toward establishing federal regulations for the SBDC Program and the role in that process we expect the Association of SBDC Directors to play.

My responsibility for the SBDC Program began in August of 1982. In February of 1983, we successfully decentralized the operation of the program through issuance of Standard Operating Procedures, giving operational responsibility to our district offices. During 1983, work was begun on a Policy Manual, establishing program policies for the operation of the program, both from a decentralized position and from a national policy position. Concurrently with this activity, the initiating document for an SBDC proposal, the Program Announcement, was rewritten to carry policy issues that had been developed through decentralization and through approximately one year of operation of the program.

All of this structural management development of the SBDC Program - issuance of an SOP, rewriting of the Program Announcement and beginning development of the Policy Manual - was accomplished with full participation of the SBA regional and district office personnel and representative SBDC Directors. Under my management goals and direction, the management of the program has always been geared toward an orderly development of the structure needed to operate the program by successfully gaining consensus from all program participants in this policy development process.

What has informally been developed and agreed to by my office is that this management development process would result in the drafting of appropriate federal regulations flowing out of these other management documents begun in August of 1982.

My reasons for so structuring this management process arose out of two areas of management emphasis and concern:

1. In 1982 when I assumed responsibility for the program, problems and hostilities resulting from these problems, were at their peak. Intense antagonism existed both from SBA and the SBDCS.

There was a clear need at that time to build a relationship between the Agency and the SBDC Directors that would permit the focusing of attention on the purpose of the program rather than on the tense and hostile reaction occurring between the two groups.

During this past two years we have succeeded in building that cooperative relationship while, at the same time, continuing our building of the management structure from which to operate the program.

2. Of even greater importance, we have pursued this management goal during the past two years in such a way as to permit the creative strength of the program to grow and expand and to develop more innovative ways this unique resource can serve the small business community.

In my view, we have just begun to discover the myriad ways SBDCS can serve the mission of the Agency. The building of the management structure, as I have described, has permitted the growth of the program in an orderly, consultative manner, taking care that the process not inhibit the purpose and potential scope of the program.

Robert Webber - Page 3

Therefore, while federal regulations are an important part of the management responsibility of the Agency and the development of these regulations an integral part of the management structure I have described, I regret the abrupt interjection of the process of developing these regulations into what has been, both in terms of management and design of the program, a planned, evolutionary process.

In my projection of a time table for issuing federal regulations, I had planned to issue the policy manual early in 1985. Here again, the policies contained in the Policy Manual have been achieved through full participation and consultation with both SBA field personnel and SBDC Directors. Once the Administrator has agreed to these policies and they have been issued, I had planned to allow sufficient time for implementation of these policies and ample time to work out areas of difficulty before issuing federal regulations.

It is my view that this process, based on my management responsibility for the program for the past two years, is the proper, orderly way in which to put in place this important part of the management structure of the SBDC Program. I point this out particularly, because, despite the fact that the SBDC Program has been in existence since 1977 and funding levels for the program and number of participating SBDCS has been at a significant level since 1980, the current impetus for immediate establishing of federal regulations appears to be generated by other than the orderly management structuring I have described.

I would like it clearly understood by the Office of General Counsel that our management goal to achieve federal regulations with full input from both our SBA field personnel and the SBDC Directors in no way indicates our intent or desire to delegate the writing or structuring of these regulations to anyone outside the Central Office staff of the Office of Small Business Development Centers. Indeed, my own SES objectives for the past two years has listed as my responsibility the issuance of federal regulations for the SBDC Program. We do not intend to delegate to any group this important task.

We do intend, however, to seek full and comprehensive input from all parties involved in the SBDC program in terms of issuance of these regulations. This will include the Association of Small Business Development Centers, regional and district office SBA personnel and those persons designated by you in the Office of General Counsel to assist us in this endeavor.

Robert Webber - Page 4

In addition to my desire that you know in a formal, written manner my position on this matter, I would also like to request that you ask the members of your staff working with us on this important facet of the Small Business Development Center Program management structure to take into account our management goals and objectives in the overall conduct of the SBDC program. It is important that the office recognize our concerns about the orderly management process we began in 1982 and, in that recognition, cooperate with us in moving this management process forward in a constructive, timely and sensitive manner.

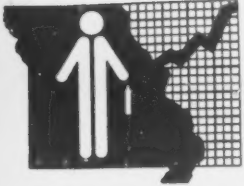
Johnnie L. Albertson
Deputy Associate Administrator
Small Business Development Centers

Copies to:

Mr. Sanders

~~Mr. Hall~~

Mr. Teckler



Small Business Development Centers

June 18, 1987

6/23/87

*Judy
Let's Discuss.
Freddie
Johnnie
FYI*

Mr. Jim Laas
Assistant Regional Administrator
U. S. Small Business Administration
911 Walnut
Kansas City, MO 64106

Re: MoSBDC Year 06 Proposal

Dear Mr. Laas:

This letter will serve to re-emphasize the comments in Dean Turner's letter to you dated June 16, 1987.

If, as the Dean mentioned, you and he are unable to resolve the remaining issue and reach agreement on the MoSBDC Year 06 Proposal by July 3, 1987, this letter is our official request that the MoSBDC Year 06 Proposal be forwarded on July 3, 1987 to the Deputy Associate Administrator - Business Development - Small Business Development Centers (DAA/BD/SBDC) according to the SBA/SBDC Conflict Resolution Policy.

Thank you for your prompt attention.

Sincerely,

Fred O. Hale
State Director

FOH/sm

cc: Emery Turner
Kathe Frazier
Robert Andrews
William Powell
Johnnie Albertson ✓
John Cox

State Office
(314) 534-7204
St. Louis University
3674 Lindell Boulevard
St. Louis, Missouri 63108

RECEIVED
JUN 23 11 09 AM '87
BUSINESS DEVELOPMENT



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

MEMORANDUM

DATE: JUN 26 1987

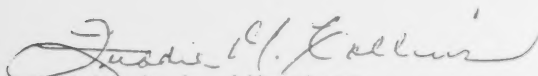
TO: William Powell, Regional Administrator, Region VII
 ATTN: James Laas, ARA/BD
 TO: Robert Andrews, District Director
 ATTN: Kathryn Frazier, ADD/BD
 THRU: John R. Cox, AA/BD *[Signature]*
 FROM: DAA/BD Office of Small Business Development Centers
 SUBJ: Renewal of Missouri SBDC

On June 23, 1987, our office received a copy of a June 18th letter to Jim Laas from Fred Hale, State Director of the Missouri SBDC, as well as a copy of another letter from Dean Emery C. Turner, School of Business Administration, St. Louis University, dated June 16, 1987. Both of these letters refer to the problems associated with renewal of the Missouri SBDC, and request that July 3, 1987 be established as the cut off date for resolution of these problems by the SBA Regional Office. Upon receipt of these letters, Judy Dunn of the SBDC staff and Jim Laas discussed the July 3rd date and agreed that it was realistic and acceptable to both offices, with the clear understanding that if reconciliation had not occurred at that time the problem would be forwarded to Central Office. This is in conformance with agency policy regarding conflict situations that cannot be resolved at either the district or regional levels.

Several months ago when the Missouri problem was first brought to our attention, we stressed the necessity for thorough documentation outlining in detail the specific reasons for disapproval of the proposal, including the actions taken by the district and regional offices to achieve corrective action. Therefore, you are reminded that if the conflict is forwarded to the central office, this supportive data must be a part of the official file to support the positions and/or actions taken regarding the issues that are in conflict.

-2-

As of this writing we are still hopeful that the problems surrounding renewal of the Missouri SBDC for the coming year can be satisfactorily resolved at the regional level and continue to reinforce decentralized management of the SBDC program. Accordingly, please continue to keep our office informed as to the status of the Missouri SBDC proposal. If we can be of any further assistance, or provide any necessary support, please feel free to contact me at any time.


Johnnie L. Albertson
JAL

The CHAIRMAN. Our next witness is Dr. Delbert Weber, Chancellor of the University of Nebraska at Omaha.

Dr. Weber.

**STATEMENT OF DR. DELBERT D. WEBER, CHANCELLOR,
UNIVERSITY OF NEBRASKA AT OMAHA**

Dr. WEBER. Senator Bumpers, Members of the Committee, I am Delbert D. Weber, chancellor of the University of Nebraska at Omaha.

I am pleased to be here this morning to testify on behalf of the Small Business Development Center Program, and particularly on the program in Nebraska.

In the interest of your time, I have tried to summarize my testimony, of which you have a full copy.

The CHAIRMAN. And the full copy will be inserted in the record, Dr. Weber.

Dr. WEBER. Thank you.

The University of Nebraska at Omaha is proud to have sponsored one of the eight pilot Small Business Development Centers. Our center celebrated its 10th anniversary this year. It has been a highly visible entity. It has brought great credit to the University of Nebraska at Omaha, and it has been helpful to the small business development in our State. Just as importantly, it has been a major contributor to the development of the SBDC Program.

Among those contributions is the concept of statewide delivery. Early in its history the Nebraska Business Development Center established subcenters throughout the State of Nebraska. Our concern for the economic growth of rural Nebraska continues to this day. In fact, it has grown deeper, and our experience in delivering services to rural Nebraska has made our programs even more effective.

In the early years of our SBDC's operation, the primary concern of the economic development professionals in Nebraska continued to be industrial recruitment. More recently, however, we have seen more interest in small business development as a method of general economic development. That interest translated into increased State funding for our SBDC. We will open three new centers this year, bringing the total number of centers in our State to eight.

Our SBDC was not the only State program competing for these funds. It received them because of the reputation it has earned for quality and for service. Last year our SBDC served 1,267 businesses with direct counseling assistance. Since 1981 it has counseled nearly 7,000 businesses. Through its training program it conducts about 120 workshops and seminars each year, reaching over 4,000 business owners and managers annually.

I could quote many letters of thanks and support sent to our SBDC from its clients. Here are two examples. From Kimball, NE: "It was a pleasure to deal with someone who was never too busy, too far away, or too big city oriented to deal with our small town, rural situation." From Lincoln, NE: "Today we are beginning our business venture. It happened because of you."

And I can also testify that we have had people come to our Appropriations Committee hearings in the State of Nebraska to testify about the effectiveness of our center.

Nearly 70 percent of our clients implement some or all of the recommendations made through counseling. For three-quarters of them, these recommendations are effective in solving their problems. The survey of clients conducted by our SBDC each year indicated that 192 jobs were created or saved this year as a result of our center's activity. Last year our SBDC's clients attributed 206 jobs as being created or saved because of SBDC assistance. In the past 2 years, our SBDC's clients attributed nearly 400 jobs to SBDC counseling assistance, and that is a good job in a very tough Nebraska economy.

Our center achieves this quality service delivery despite low funding. With only 1½ million residents, Nebraska's Federal funding cap is \$442,000. We reached this 3 years ago. Nebraska is a State 500 miles long. A third of its population is in the Omaha metropolitan area. Through the rest of the State, it is more difficult and more expensive to service small businesses than in more densely populated regions.

In its effort to serve rural businesses, our SBDC has spent most of its funds in the field, leaving a small statewide administrative staff that is increasingly burdened by the management requirements of our statewide network. Our financial burden is compounded by SBA pressure to broaden the scope of the program. Last year, for example, we were asked to establish a technology transfer program, and we did. This year we are being asked to establish an international trade program, and we will.

But try as we might, I am sure our SBD staff cannot do justice to these special efforts under current budget limitations.

University administration of the SBDC Program in Nebraska has gone smoothly. It is not our only nor our largest federally supported program. There are, however, aspects of the program administration that make it a more costly program to administer than most. No other Federal program, for example, requires us to determine our specific days of operation. We are required in the proposal to predict our holidays even before our governing board has established the academic calendar. Accounting for program match is difficult because it is different than for all other Federal programs. Our Grants Accounting Department tells me that the normal distinctions between direct costs and indirect costs are not followed in this program. It therefore becomes difficult for our grants management people to distinguish between costs which SBA defines as cash and which they define as indirect.

I am told that audits do not provide clarification. The rent, for example, that we pay to the Nebraska Department of Administrative Services for our SBDC's offices at the downtown State office building have been classified as both cash and in kind by SBA auditors.

The SBDC Program is one of the few Federal programs that requires quarterly reports. Most require only a final report.

I am sure there are good reasons for many of these administrative burdens. This Committee must recognize, however, that the SBDC Program is not an inexpensive one to administer. It is, in

fact, more expensive than most other Federal programs, and no Federal program, at least at the University of Nebraska at Omaha, allows less in indirect cost recovery.

Some language in the proposed regulations raises additional concerns regarding administration of this program. I applaud SBA for delegating much of the administrative authority for the SBDC Program to its field staff. I am concerned that it appears that SBA believes that it has met its partnership and its responsibilities by using its field staff. Those responsibilities can only be met with a true partnership between SBA and its local host institutions.

This Committee knows that at least half of SBDC funding comes from non-Federal sources. In Nebraska and in most other States the State and university commitment exceeds half of the cost. In Nebraska we received an additional \$205,000 of funding for the 1987-1988 fiscal year. Every dollar appropriated was for a specific purpose. The regulation, however, would require us to submit to SBA review of these purposes in accordance with SBA defined national and regional priorities.

As the chief administrative officer of a State institution who is responsible to an elected board and to an elected legislature, I cannot turn over to SBA authority for the expenditure of State funds.

The Nebraska Venture Capital Network Act, for example, appropriates \$25,000 for the NSBDC through the Nebraska Department of Economic Development. That is given to establish a venture capital network. Under the proposed regulations, our local SBA district office would be required to review this expenditure in light of national and regional SBA priorities. To our knowledge, those priorities have never included venture capital networks.

Am I to ignore the directives of our State legislature and our Governor in the administration of this program?

It seems to me that it would be more productive for us to learn from each other by working together in the common goal of helping small business owners.

As an example, I would cite the recent SBA national priority of rural development. This priority is a new one for SBA but not for the State of Nebraska. Our SBDC can trace its beginnings to a 1975 contract with the Army Corps of Engineers to assist the small businesses of Niobrara, NE, who were being moved together with their entire town to higher ground to avoid a rising watertable.

Our rural development activity continued with the establishment in 1977 of the Nebraska Rural Communities Program as part of SBDC. This program has provided intensive counseling and training services to a Nebraska community each summer. It was expanded this summer to include seven new rural small business development strategies that can be employed by towns with as few as 1,200 people. Yet, in establishing its rural development initiatives, our SBDC's programs and experiences in rural development have not been consulted by SBA.

The regulations also have an overly restrictive and burdensome definition of lobbying. It would strictly prohibit communication between SBDC directors and yourselves as well as between those directors and State legislators. Even I would be prohibited from updating elected officials on the activities of our Small Business De-

velopment Center Program unless I could prove that I had not been asked to do so by an SBDC director. I submit that that is an impossibility.

I believe that you as elected officials responsible for this program and that your colleagues in State legislative bodies deserve and should demand a lobbying policy broad enough to allow those directors to keep you informed of their activities and to be able to respond to your requests, whether they be written or oral.

In addition to these core problems, I am told that there are also technical problems with the regulations. A requirement for time cards for our salaried people, for instance, could pose problems for our compliance with both the Fair Labor Standards Act and OMB Circular A21.

We can continue to provide the excellent service that has become the hallmark of the SBDC Program if we proceed together with mutual trust and respect. It is important to keep in mind our objective, and that is to help small businesses. Our Nebraska Business Development Center slogan is helping good businesses become better.

I hope the SBA can adopt a similarly positive attitude in its relationship with the partner institutions.

I thank you very much.

[The prepared statement of Dr. Weber follows:]

Testimony to the United States Senate
Committee on Small Business

October 15, 1987

Delbert D. Weber
Chancellor
University of Nebraska at Omaha

I am pleased to be here this morning to testify on behalf of the Small Business Development Center program and particularly upon the program in Nebraska.

My perspective is that of an institution with one of the longest running and, I believe, most successful SBDC programs in the nation. The SBDC at the University of Nebraska at Omaha was one of the eight pilot centers. We are proud of the contributions we have made during the past decade both to the development of the program and through our services to the small businesses of Nebraska.

When the University of Nebraska at Omaha sought designation, in 1977, as a pilot center of what was then called the University Business Development Center program, we had already developed a keen interest in providing assistance to small businesses. We had also developed a close working relationship with the U.S. Small Business Administration. Our Small Business Institute program was among the most active in the nation, producing more than 80 counseling cases per year. In addition, our business faculty had worked intensively with small businesses in both urban and rural settings. Of particular note was the work of our business faculty in 1975 on behalf of the businesses of Niobrara, Nebraska. These businesses were being moved to a new town site and our work was done through a contract with the Army Corps of Engineers.

I mention the Niobrara project because it was our first major effort in small business development for rural communities. Rural development has become an important emphasis in our SBDC program. The evolution of the rural development emphasis relates to the central theme of my testimony today; that is, the SBDC program can only be successful if a true partnership exists between the host institutions and SBA. We believe that SBA, our University and, most importantly, the small businesses of Nebraska have benefited when the partnership has been effective.

An early example of the benefits of a positive relationship was our decision to take the SBDC state-wide. We subcontracted with the University of Nebraska-Lincoln, Kearney State College, Wayne State College and Chadron State College to provide services in their respective geographic areas. This was in our first year, in 1977. Though it is the standard for SBDCs today, state-wide networks was a concept developed by the pilot centers. Many of the now standardized operating practices of SBDCs were, of course, tested and developed by

the pilot centers. The pilot program is now over, but the need for individual state initiatives and innovations remains. Indeed, SBDCs would not be true to the values of their clients if they became standardized service bureaus.

I will return to this theme later. Each of us -- the SBA, the University, the small businesses we serve -- gains from a true, vibrant partnership. All of us will lose if the SBDC system becomes one of standardization and confrontation.

DEVELOPING A REPUTATION IN NEBRASKA

Through many of its early years our SBDC program was not viewed as strongly as it might have been as a contributor to economic development in Nebraska. This was partly due to the prevalent notion of the 60's and 70's that economic development was best achieved through industrial recruitment. There were also those who were willing to wait and see if it worked before deciding to support it.

The program achieved strong support in its earliest years from the Nebraska small business community it served. This was particularly so among the small business community in our rural towns. Rural development is not a new religion with us. We have recognized for more than a decade that rural communities can't be saved by farm programs alone. Much must be done to develop other wealth producing industries in rural America and to assist retail and service businesses in surviving the growing direct marketing and urban marketing competition.

More recently, there has been a broader recognition in Nebraska of the contribution small businesses make to economic development and the roll our Nebraska Business Development Center plays in that effort. This recognition has translated into substantial increases in state support for our program, including funding for three new subcenters. This is the first increase in our network since it was organized ten years ago. Our new centers will be in Scottsbluff and North Platte, where we will work in cooperation with the community colleges there, and in southeast Nebraska through a subcontract with Peru State College.

This increase in state support has not come because of any inherent promise in the concept of small business development centers. It has come because we have earned it. The Nebraska Business Development Center has a reputation for service, for effectiveness, for innovation, for cooperation.

SERVICE

Our service numbers speak the story. Last year our SBDC served 1,267 businesses with direct counseling assistance. Since 1981 nearly 7,000 Nebraska businesses have received consulting assistance. In 1986 the Nebraska SBDC conducted 118 workshops and seminars with 4,166 participants. Since 1981 it has conducted 861 training programs with nearly 29,000 participants.

Numbers are, of course, only an indication of a service orientation. More indicative is the attitude of the people who work in our centers. I can tell you that they are dedicated people with a genuine affection for and understanding of small business owners. I can tell you they work long hours and often travel great distances to serve the small business owners of our state.

Recently, our SBDC received a letter from Gerri Linn, a CPA in Kimball, Nebraska. It was in regard to assistance from one of our consultants on her application for an SBA loan guarantee for the purchase of an existing business. "It was a pleasure," she said, "to deal with someone who was never too busy, too far away or too big-city oriented to deal with our small town/ rural situation."

From Glenda Bomberger, a client in Lincoln, Nebraska, we received a letter that began "Today we are beginning our business venture It happened because of you."

In a letter to one of our UNO professors who worked with him in marketing and promotion, Donald Smith of Omaha said: "I want to thank you and the Nebraska Business Development Center for your help I am confident that with my new marketing tools I can succeed as a consultant in the field of commercial credit."

I could quote many more letters. They serve to illustrate the satisfaction of small business clients with our SBDC's program. But, it is also important to attempt to gauge the quality of performance in a more objective sense. The Nebraska Business Development Center does that each year through a survey of its clients from the previous year. The survey of 1986 clients was recently completed.

It contains some interesting information. Nearly 70% of our SBDC's clients implemented some or all of the recommendations made by our Center's counselors. Of these, 74% said the recommendations had been effective in solving their problems.

For some clients, of course, the recommendation is that they not enter the venture they contemplate. In Nebraska, last year, 16 clients received and followed that recommendation. For many others, however, recommendations from our Center assist them in achieving economic gains.

More than half of our Center's clients attributed sales increases to assistance they received. For 55 of these clients that translated into new jobs -- 179 in all. One client indicated that 13

jobs were saved in his business because of assistance received from our program.

Job creation is an important economic development yardstick. I believe our SBDC's performance on that measurement alone is significant. Often the announced job creation performance of economic development programs -- particularly in industrial recruitment -- are optimistic figures based on a new plant achieving full capacity over a span of several years. I say this not to criticize or denigrate the important job of industrial recruitment. I say it only to put the jobs created and saved figures of our SBDC in perspective.

These are jobs that have been created within the past six to twelve months partly because of SBDC assistance. For these growing companies more jobs may be created in coming years. But, we know that our SBDCs 1986 clients created or saved 192 jobs in 1987. Its 1985 clients created or saved 206 jobs in 1986. In two years, then, our SBDC's clients credited the assistance they received with helping them create or retain nearly 400 jobs. A good performance in a tough Nebraska economy.

Our Center also has a reputation for innovation and, I think, deservedly so. Its rural communities program and a special program for women business owners have received national awards for innovation and excellence.

I spoke earlier about our special interest in rural development. Our rural communities program was begun as one of the first projects of our SBDC. Dr. David Ambrose, who served as the first director of our SBDC and is now a professor marketing at UNO, continues to direct this program. Each year a single community is chosen. Work begins in January and peaks in June when a team of graduate students spend two weeks in the community. Each does a comprehensive policy study of a business in the community. Throughout the program our SBDC works closely with the chamber of commerce in the community, with other business leaders and often with the city government as well.

I could list for you the dozen or so national awards this program has won. However, I think the most important indicator of its success is its waiting list. Communities requesting this program must now wait three to five years before we can serve them.

As I am sure you are aware, rural development is an important economic and social need in our country. This is especially true in Nebraska. In response to that need the Rural Communities Program concept is being expanded to include a number of follow-up activities by the SBDC that will help develop a community program in small business development. These activities include seven strategies for business development by small communities. Our SBDC is currently testing these strategies in a joint program with the Fillmore County Development Corporation in Geneva, Nebraska.

Another innovative program has been our SBDC's sponsorship of the Nebraska Venture Group — a venture capital club in Omaha. Prompted by the state's lack of a formal venture capital community, the SBDC organized private investors, consultants, attorneys, accountants, bankers and others interested in the venture process into a club that meets monthly to here business plan presentations. In two years time the organization has heard more than 40 presentations. Five of these have been funded by members of the group.

Finally, we believe a significant strength of our SBDC has been its ability to bring together each of the four year public institutions of higher education in our state in a joint effort. This coordinated effort provides our small business community with a unity and efficiency of service that would be lost if there were competing or duplicative programs.

WEAKNESSES

A significant weakness in our program, particularly in recent years and despite some improvement this year, has been low funding. Our SBDC reached its federal funding cap of \$442,000 three years ago. Funding is always a difficult question. I recognize the difficulties you face in making funding decisions. We also understand the logic of a population funding formula. Still, it makes living within the budget no less difficult.

Nebraska is a state 500 miles long. At its eastern end it is fairly densely populated. In its panhandle there are counties with a population of less than two per square mile. As in most western rural states, Nebraska's ratio of businesses to population is considerably higher than in the more populous states. This relates to the social implications of rural development. In Omaha we get along very nicely with one pharmacy for every 4,000 people. If the ratio fell to one for every 4,300 people we probably wouldn't even notice. In Cook, Nebraska, population 381, the failure of its only pharmacy would mean a significant decline in its quality of life.

Our SBDC has attempted to cope with the problem of rural delivery of services by putting as much funding as possible into our local service centers. I think the policy has worked well. The SBDC serves clients in 200 or more Nebraska towns every year. However, this has left our program with a small central staff that attempts to provide service delivery in Omaha together with its responsibilities for state-wide administration.

This problem is compounded by SBA pressure to broaden the scope of our SBDC program. Last year, for instance, we were asked to establish a technology transfer program and did. This year we are being asked to establish an international trade and will. But, try as they might, I am sure our SBDC staff can't do justice to these special efforts under current budget limitations.

PROGRAM ADMINISTRATION

Administration of our small business development center, for the most part, has gone smoothly. It is not our only federally supported program nor is it our largest. We are currently, for example, conducting a three year program to educate Afghanistan refugees under a \$7.1 million U.S. A.I.D. grant.

There are, however, aspects of SBDC program administration, from a university perspective, that make this program more costly to administer than most. For example:

No other federal program requires a commitment to specific days of opening and closure as does the SBDC program. This is particularly burdensome in that we are required (when submitting the proposal) to predict University holidays 12 to 18 months in advance -- well before our governing board, the University of Nebraska Board of Regents, has approved a calendar.

Accounting for program match is difficult because it is different than all other federal programs. Our Grants Accounting Department tells me that the normal distinction between direct costs and indirect costs are not followed in the SBDC program. It therefore becomes difficult for our grants management people to distinguish between costs which SBA defines as "cash" and "indirect." I am told that audits have not provided any clarification. The rent we pay the State of Nebraska's Department of Administrative Services for space in the State Office Building in downtown Omaha for our SBDC has, for instance, been classified as both cash and inkind by SBA auditors.

The SBDC program is one of the few federal programs that require quarterly reports. Most require only a final report. It is also one of the few programs that require monthly draws of appropriate funds.

I am sure there are good reasons for many of these administrative burdens. I have no quarrel in principle, for instance, with quarterly reports. This committee must be recognize, however, that the SBDC program is not an inexpensive one to administer. I am irritated that some in SBA and elsewhere disregard indirect costs as phantom or inconsequential costs. No federal program at our University costs us more to administer and yet allows so little in indirect cost recovery as does the Small Business Development Center program.

SOME THOUGHTS ON PROPOSED REGULATIONS

Some language in the proposed regulations raises additional concerns regarding administration of the SBDC program, especially so with regards to the responsibilities I have as an officer of the University. It seems to me that the proposed regulations insulates the management of SBA from local demands and creates an adversarial relationship with its partners.

I applaud SBA for delegating much of the administrative authority for the SBDC program to its field staff. At the same time, I am greatly concerned by the language of the proposed regulations. It clearly appears that in delegating responsibility to its own field staff, the SBA believes it has thus assured its "partnership" and "local responsiveness" responsibilities in administering the SBDC program.

We have enjoyed, in Nebraska, an excellent relationship with SBA through our Omaha District Office. That relationship has been built on the basis of a strong mutual respect. A foundation for continuing that atmosphere of mutual respect is missing from the regulations. It's emphasis on national and regional priorities leaves no room for local initiative. We are certain that the SBA personnel in Nebraska would not suggest that they could or should stand in the place of the elected and appointed officials of Nebraska in deciding what programs best serve the businesses of our state.

I would urge this committee to suggest to SBA that language in the regulations be changed to require consideration of local needs as expressed through a true partnership negotiation with the SBDC host institution.

The importance of this partnership approach can be clearly seen in Nebraska. For the 1987-88 Nebraska fiscal year the Nebraska Legislature appropriated \$205,000 in additional funds to the Nebraska SBDC through three separate pieces of legislation. Every dollar appropriated was for a specific purpose.

The Nebraska Venture Capital Network Act, for example, appropriates \$25,000 to the Nebraska Business Development Center through the Nebraska Department of Economic Development to establish a venture capital network. Under the proposed regulations the local district office would be required to review this expenditure in light of national and regional SBA program objectives. These objectives do not currently include the establishment of venture capital networks. Yet, are we to ignore the directives of our state legislature and our Governor?

As the chief administrative officer of a major university in Nebraska, I simply cannot turn over to the SBA authority for all of our small business development activities simply because we have an SBDC program.

Again, it seems to me that there is much we can learn from each other and much more to be gained in working together rather than at cross purposes.

I return to our concern with rural development as a case in point. Rural development has now been made a top priority at SBA. This is certainly appropriate. Yet, it is strange to me that the SBA has not explored the role SBDCs might play in rural development. To my knowledge no effort has been made to review the programs our SBDC has conducted in rural development. Certainly these programs must offer a model for SBDC participation that deserves, after a decade of successful operation, at least a review by SBA in setting its national agenda.

The regulations also have an overly restrictive and burdensome definition of lobbying. It would strictly prohibit communication between SBDC directors and yourselves as well as SBDC directors and state legislators. Even I would be prohibited from updating elected officials on the activities of our small business development program unless I could prove that I had not been asked to do so by our SBDC director. It is an impossibility.

I believe you as elected officials responsible for this program and your colleagues in state legislative bodies deserve, and should demand, a lobbying policy broad enough to allow SBDCs to keep you informed of their activities and to respond to your requests — written or oral.

In addition to these core problems of the regulations, there are also some technical problems. One of these is the requirement that we maintain daily time and attendance records on SBDC employees. The University of Nebraska at Omaha has a time and effort reporting procedure for use in all of its federal programs. This same system is used by our sister institutions — the University of Nebraska-Lincoln and the University of Nebraska Medical Center. The system is designed to meet federal requirements by preventing the application of more than 100% of an employee's time to any combination of University and federal projects. It is not clear to me why this system is not sufficient for SBA reporting purposes. Further, maintaining time and attendance records on exempt personnel may create additional problems for us in suggesting that these positions should not be exempt and thus subject to overtime compensation.

We can continue to provide the excellent service that has become the hallmark of the SBDC program if we proceed together in mutual trust and respect. It is important to always keep in mind the objective — helping small businesses. Our Nebraska Business Development Center's slogan is: "helping good businesses become better." I hope the SBA can adopt a similarly positive attitude in its relationships with the small business development center host institutions.

Thank you.

The CHAIRMAN. Thank you, Dr. Weber.

I just have an observation to make, and that is, you know, this administration came to town in no small part due to the antipathy and, shall I say, general repugnance of the business community especially to regulations. Slowly but surely they started off giving the number of pages in the *Federal Register*, I remember all that campaign rhetoric, and all of a sudden we have things like this—and this is only one example—where they jump into a regulatory process where there was not even a regulatory process before.

And to suggest, you know, that SBA should—the Director of our SBD Center in Arkansas happens to be a very good personal friend of mine, we see each other socially occasionally—try to interrupt that relationship or to even interfere with his right of free speech would be a really obnoxious regulation.

Senator Bond.

Senator BOND. I pass. Thank you.

The CHAIRMAN. Senator Karnes.

Senator KARNES. Thank you, Mr. Chairman.

I would just like to acknowledge the significant contribution that Dr. Weber has made from a personal point of view of being a native of Omaha and having a close association with the University of Nebraska. He understates, even though he made an outstanding statement, the contribution of the Small Business Program, and his individual efforts in creating a very positive environment for small business in Nebraska. I just want to publicly thank you, Del, and your director, Bob Bernier, who is here with you today, for a program that I think has put Nebraska on the map, put the University of Nebraska at Omaha on the map as far as making a very positive assistance program using public and private sector funds in conjunction with the legislature to help an economy which is, in Nebraska, somewhat under stress because of the difficulties in agriculture.

You have done a great job, and you are to be complimented.

Dr. WEBER. Thank you, Senator Karnes.

Senator KARNES. I do have a question, a couple of questions.

First of all, I understand that in the regulations, there are some directions right now concerning control over the directorship, the director of the program.

Would you please comment on who actually controls the appointment or reappointment or continuation of the service of the director right now, or under the new regulations.

Dr. WEBER. Senator Karnes, first of all let me say that we are fortunate because Mr. Bernier has been our director ever since I have been at the University of Nebraska. Well, that is not quite true. I think he was appointed about 2 years after I was there. At that time I know that the Dean of our College of Business did consult with the local SBA person, Rick Budd, and there was no disagreement as to who that director should be.

I think had there been, the university would have had to take the position that hiring is our responsibility, not SBA's. And I think the same thing with regard to the termination of the appointment.

Now, I am commenting in the abstract because I am not familiar with the situation that has been discussed here this morning, but I

think that it is in those areas where we begin to infringe on the autonomy of the university in operating the program. I think the issue is a difficult situation at best. But I would take the position that the university must have the final authority on that.

Senator KARNES. And similarly, has the legislature in Nebraska put any restrictions on the type of control that needs to be exercised specifically on this project in funding the legislation that is authorized for SBDCs?

Dr. WEBER. It is very specific in terms of what the funds are to be used for, but no more in this program than any other with regard to the accountability that we are expected to demonstrate with State dollars.

Senator KARNES. But you do believe that you are forced to make a difficult decision between what your responsibilities are in adhering to the principles and the requirements of State funding in conjunction with the regulation?

Dr. WEBER. Not at the present time, but if these regulations, as written, were adopted, then I think we could come into conflict very quickly.

Senator KARNES. Mr. Chairman, you may know this, and Chancellor Weber, you may know it, too, but how many States have similar types of relationships with these programs in the university? Is this situation that we are talking about one that is common around the country?

Dr. WEBER. You mean how many centers are there?

Senator KARNES. With the university.

Dr. WEBER. That I do not know. There are 49, I understand. I think it is 45 that have an association with universities.

The CHAIRMAN. I am told 45 of them are university sponsored.

Senator KARNES. Have you submitted comments for the record to the SBA on their proposed regulations?

Dr. WEBER. These comments to the Committee are the only ones I have submitted.

Senator KARNES. I would encourage you to submit them to the SBA also.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Karnes.

And, Dr. Weber, thank you very much for coming to be with us.

Our next witnesses make up our first panel. Mr. Warren Purdy, director of Small Business Development Center in Maine; Dr. Norman Schlafmann, State director in Michigan; Dr. Fred Hale, State director at St. Louis University in Missouri.

Gentlemen, if you would please just proceed according to the way your names appear on this list.

Mr. Purdy, would you please start off the testimony?

Mr. PURDY. Yes, Mr. Chairman.

**STATEMENT OF WARREN G. PURDY, STATE DIRECTOR, MAINE
SMALL BUSINESS DEVELOPMENT CENTER, UNIVERSITY OF
SOUTHERN MAINE, PORTLAND, ME**

Mr. PURDY. I thank you for being able to appear here today. I have tried to condense my comments. You of course have the full text for the record.

The CHAIRMAN. We will insert your full statement in the record.

Mr. PURDY. Unfortunately, I will have to refer to some notes from time to time as I get into more technical areas.

My name is Warren Purdy. I am the State director of the Maine Small Business Development Center. I also represent the Association of Small Business Development Centers. Prior to coming to the SBDC I was a commercial banker on Wall Street.

The purpose of my testimony is really threefold: First of all, to talk a little bit about the Maine program; second, to highlight some of the national aspects of our program; and finally, to talk about some rather serious problems that we are facing with the Small Business Administration.

The Maine Small Business Development Center was one of the first eight pilot programs in the country. We started off with a \$20,000 grant from SBA. We matched that with Kellogg Foundation funds and with university funds. The program over the last 10 years has grown to over an \$800,000 cash budget, with money from the State, the university, and the private sector. Sixty percent of the cash funding in our program comes from a combination of university and State moneys.

The SBDC network in Maine is somewhat unique. We rely on a combination of universities and regional development organizations. Our regional development organizations also happen to be SBA 503, 504 certified lenders. It has enabled us to leverage those resources so that businesses really, when they come to an SBDC, have a one-stop shop. We provide services ranging from general counseling to rather sophisticated loan packaging.

In the rural part of the State where small business predominates, this is most important. This program has been touted by Governor McKernan and also by our SBA district office. Our counseling program is staffed by 12 full time professionals around the State that bring over 260 years of private sector experience to the SBDC.

The backgrounds of our counselors include the manager of Government contracts for E.R. Squibb Corp., an industrial engineer from Bath Iron Works, a holding company executive, two or three bankers, CPA's, a senior loan officer with the State, and the comptroller of a high tech equipment manufacturer. Most hold graduate degrees or professional certifications, and also in addition a highly qualified staff in the areas of training, computer services, and information services.

Aside from counseling and training services that SBDCs conduct around the country, there are also a host of specialized services that are offered in our national program. And I would just like to mention a few. International trade, which is certainly a concern in our country today, is something that SBDCs have stepped into the forefront of years ago, I think before it became of such concern to a large number of people today. Eleven SBDCs around the country operate fully integrated international trade programs with services ranging from identifying international markets for products to licensing arrangements and helping business with language and customs problems.

We also have many procurement programs. Florida, for an example, has an on-stream interactive computer system that matches

small business not only with Federal, but also with State and local procurement opportunities. In Florida, 30,000 businesses a year participate in this system, and some 13,000 bids are processed annually. Last year Florida's efforts resulted in \$35 million in procurement awards, up from \$13 million in 1985.

SBDCs are also involved in counseling small firms to raise capital. In Massachusetts, the SBDC's capital formation service is specifically designed to assist smaller businesses to pursue not only State and municipal sponsored financial assistance, but specialized Federal loan programs such as SBA's 503 and 504 Loan Program, the SBIC Program and the 7(a) Loan Program. Private venture capital is also utilized.

To date, the capital formation service center alone has helped secure over \$31 million for small businesses through a variety of resources. In fiscal year 1986, 47 percent of the clients were manufacturers of both low- and high-tech products. The Massachusetts SBDC's other five regional offices have channeled an additional \$4 million to small firms and have created 2,500 jobs in the State of Massachusetts.

In North Carolina, the SBDC, in performing its advocacy role, recently sponsored a meeting of 124 attorneys and accountants from around the State who discussed changes in State laws which could help small firms raise capital. As a result of this SBDC meeting, two bills have been enacted into law by the State which help improve small business access to capital.

Time is too short, of course, to review all of our activities, but we have enclosed a fairly comprehensive compendium of information relating to the State programs. It is interesting to note the comprehensive nature of this program. The largest center in here only has three or so pages of information, which give one an idea of the nature of the SBDC and the number of programs being offered around the country.

We also have included in our testimony an attachment that talks about the backgrounds of State directors, the vast majority of which come with substantial private sector experience.

Mr. Chairman, the benefits of the program are well documented. We are the only SBA Program to our knowledge that has ever gone out to try to evaluate economic impact of programs, and we took the lead in this, and specifically through the University of Georgia.

Two studies have been completed to assess economic impact of the SBDC Program. The first one was conducted during 1981-1982, and I will just highlight some results of that study.

Firms responding to our surveys in that study had increases in sales of more than 25 percent greater than other firms in the States and employment increases of over 25 percent, the above average firms in those same States.

They demonstrated for each dollar spent in the SBDC Program, \$11 was returned in revenue. Mr. Chairman, quite frankly, the SBA questioned our first study, so they decided to do one of their own.

That study, which I do not believe the agency has shared with your staff, or anyone else for that matter, supports the conclusion of the association study.

To quote two paragraphs from MetaMetrics, who was the contractor, I think would be appropriate at this time. These are very short but I think they highlight the significant impact of our program.

And I quote: "Between 1982 and 1984, updates of the Dun & Bradstreet file, which was the businesses that they were using to compare to our clients, the average growth of sales of SBDC client firms was greater than that of control firms.

"The difference was statistically significant. The average growth in sales was \$194,000 for SBDC firms, and \$90,000 for control firms."

Second, looking at employment, using the same methodology, they found statistical significance, the average SBDC firm had a 2.6 employee increase during that period of time. Well, at the same time, the control firms had a decrease of 1.3 employees.

In addition, we are conducting a second study now, 16 States have reported we are in the process of aggregating the data, and of course we will provide you with the information as soon as it has been completed.

So far we are finding that, roughly for every Federal dollar that is spent on indepth counseling is returning \$15 in tax revenues.

Despite the programs success, our relationship with our Federal partner is tenuous and strained. There are several reasons for this. The most important, I feel, is partnership. And where our partnership with the agency begins, and where our partnership stops.

From our perspective we believe the SBDC enabling legislation, the 1984 reauthorization legislation, the Federal Grants and Cooperative Agreements Act, and the philosophical underpinnings of the program, and just the practical day-to-day administration of the SBDC Program require and necessitate a full and equal partnership between SBA and the SBDCs, both in program delivery and implementation of Congressional policy.

The SBA, instead, wants to dictate the terms of our agreement. When Congress created the SBDC Program, it gave SBA the choice of having the SBA-SBDC relationship be either a contract, a grant, or a cooperative agreement.

In 1980, the SBA chose the cooperative agreement arrangement, and in 1984 Congress affirmed the agency's decisions by requiring exclusive use of cooperative agreements.

As a State employee, it is important for the Committee to understand that the States, as you have heard earlier today, supplied more than 50 percent of the funding to our program, and therefore we are put in an impossible position of going to our State legislatures looking for more money for a program that the SBA controls.

Although the Federal Government has put more money into this program over the last few years, the State governments also put, with tight budgets, significant increases of money into this program.

It is very difficult for us to continue to go to our legislatures with a program when the Federal Government feels that it can dictate what is going to be done with the State funds that are put into our program.

I would like to conclude my comments with just a few things about regulations. I know we have heard a lot about them today.

They tend to be very technical. But I think some of them just seem to me to be pretty basic common sense.

First of all, the original regulations were crafted out of the general counsel's office, with no input from the SBA-SBDC program office whatsoever. And by their own admission, after they were first published, they were 90 percent changed.

My only observation is, they missed it by 10 percent. It should be noted that the regulations, as I said, originally emanated from the general counsel's office. And they have been substantially changed.

Our opinion is that the general counsel's office does not have a clue as to what SBDCs are, and therefore it was very difficult then to craft regulations for them.

In addition, at the most recent SBA National Advisory Council meeting, which is the legislatively mandated council of SBA, of private sector people to give the agency advice, senior officials of the agency tried to get the private sector members of that board to pass a resolution on SBDC regulations, essentially saying they should go forward. That was defeated by the private sector.

I would like to move into my few comments about regulations. My first one is, although we have a cooperative agreement, regulations say that SBA has the final authority for the terms of the agreement.

In addition, you could almost flip through these regulations and put your finger down anywhere and talk, but I will not do that. I will go to page 32 of the regulations. And I will talk about just one thing, a sentence that is speaking to the control of State employees.

And one of the items in here, item number four, says that any full-time SBDC employee may teach one course during non-business hours of the SBDC. Is the SBA now going to tell State employers what employees can do after their work time? I think the implications of that are obvious.

A second point is the SBA maintains authority to establish national and regional priorities for the program. We do not argue with that. Obviously the Federal Government should have a role in this, and it should be a negotiated role.

What they are essentially saying to us is that SBA is the court of last resort, these are the priorities, and this is how you are going to spend your State funds and dollars.

Third, SBA maintains control over all SBDC dollars, Federal, State, local, private, foundation, and over-match. Mr. Chairman, this, I realize, can get very confusing with regard to over-matching however very simply.

In a State like Maine, we get roughly \$320,000 from the SBA. We put another \$500,000 cash in the program, not including the office space and other donated services.

But the SBA is essentially telling our other partners, including the State, the university, development organizations, and others, that they are going to control the money put into the program which is very dangerous, in our opinion. It makes it very difficult to raise money for the program.

Fourth, is the proposed shift of authority from the SBDC program office in SBA central office from the Deputy Associate Administrator for Management Assistance, the office that Johnnie Al-

bertson used to hold, to the Office of Procurement and Grants Management.

And this is in direct contradiction of P.L. 96-302. I think it just demonstrates that when the regulations are mandated that in many areas we find there are contradictions with OMB circulars let alone the law.

And finally, after attempting to control the program both programmatically and financially, they would prohibit an SBDC director or anyone else involved with the program, as the chancellor mentioned, to use Federal program dollars to talk to his Congressman or Senator about legislation affecting small business.

And where I come from, that is called a gag rule. And it is going to be a very difficult thing to deal with.

The CHAIRMAN. I promise you, if these regulations are ever implemented, that will not be in it.

Mr. PURDY. To conclude, the mission of small business development centers is to serve small businesses in the best way possible.

And I think we are finding ourselves getting into a situation where we are simply trying to meet the bureaucratic needs of a Federal agency who wants absolute control over our program. And again, if there are any questions, please do not hesitate to ask. Thank you.

[The prepared Statement of Mr. Purdy follows:]

Association of
Small Business **ASBDC**
Development Centers

STATEMENT OF WARREN PURDY

STATE DIRECTOR, MAINE SMALL BUSINESS

DEVELOPMENT CENTER

AND

PRESIDENT OF THE ASSOCIATION OF

SMALL BUSINESS DEVELOPMENT CENTERS

before the

SENATE SMALL BUSINESS COMMITTEE

October 15, 1987

Mr. Chairman, thank you for the opportunity to appear before you today. I am Warren Purdy, State Director of the Maine Small Business Development Center (SBDC), one of the oldest university based entrepreneurial assistance programs in the country. I also serve as President of the Association of Small Business Development Centers (ASBDC). In addition I, as do most State Directors, have served on several boards of directors and a variety of committees concerned with economic development in my state. Prior to becoming the State Director, I was a commercial banker on Wall Street. I would like to acquaint you with the Maine SBDC program, to briefly give you an overview of the SBDCs' activities, and then speak to you on problems confronting the program.

The Maine SBDC was established in 1977 as one of the original pilot programs with matching funds provided by the Kellogg Foundation and the University of Southern Maine. The original \$20,000 of SBA funding has served as a catalytic agent which has enabled our program to grow to a level of over \$800,000 cash, sixty percent of which is provided by the State, the University of Southern Maine, and our local program partners.

The SBDC network in Maine relies on a unique combination of university and regional development organizations to deliver services. Most of our regional assistance providers are also SBA 503/504 corporations which combine with the SBDC to create a "one stop shopping" environment for our clients with services ranging from counseling to loan programs. This form of organization has proven particularly successful in rural areas of Maine where the welfare of small business is critical to the development of the state's economy. Our regional delivery network has been touted by our Governor and has received very strong support from our SBA district office.

The Maine SBDC counseling program is staffed with eleven full-time professionals who bring over 260 years of experience from the private sector. Backgrounds of our counselors include a manager of government contracts for E.R. Squibb Co., an industrial engineer from Bath Iron Works, a holding company executive, two bankers, a CPA and a senior loan officer with the state, and a controller for a high-tech equipment manufacturer. Most hold graduate degrees or professional certifications. We also use highly qualified part-time counselors in addition to our training, computer and information specialists.

Our program assists all types of businesses. North Atlantic Enterprises is an example of one client we have worked with for a number of years. In 1983, we helped North Atlantic secure an SBA 503/504 loan in the amount of \$325,000 to finance the purchase and retrofitting of a 68 foot dragger boat. (To my knowledge this is the first vessel SBA financed via the 503/504 program). The financing of a commercial fishing vessel in those days was not a easy task. However, North Atlantic's business plan was truly unique. Their goal was to establish a vertically integrated fishing operation which would be managed "on shore" so that the owner could concentrate his efforts in the areas of marketing and cost containment. This is virtually impossible to do with the traditional owner operated vessel. The business has been extremely successful. In four short years North Atlantic has built two new 80 foot draggers, and has constructed its own fish processing facility on the Portland waterfront and is marketing its product all over the U.S.A.. North Atlantic currently employs 21 people and has sales of \$4.5 million. North Atlantic's innovative techniques have helped to inject new life into Maine's fishing industry.

Aside from providing basic counseling and training services to small business, SBDC's around the country are involved in a host of other services for small business tailored to meet local needs.

For example seventeen SBDC's run international trade programs. Nine of those SBDC's have actual trade centers where services provided include:

- 1) research to identify international business opportunities; 2) business and strategic plan development; 3) language and cultural training for companies and government officials; and 4) joint venture and licensing services, partner search, evaluation, and negotiation, for export firms expanding into overseas markets.

Often the SBDC counselors in these programs have qualifications and skills that include graduate degrees in international trade and foreign languages, and extensive international business and travel experience. In Alabama alone, the international trade program has generated more than \$45 million in new export sales over the last four years.

Many SBDC's have focused their efforts on improving small business access to federal procurement opportunities. In Oklahoma for example, Senator Boren has asked that the SBDC work to keep more Tinker Air Force Base procurements within the state. The SBDC has responded by working with Tinker personnel and creating a special procurement outreach effort. Under this program, procurements with a value of \$5,000 or less are sent to the SBDC procurement center which matches them with small businesses who the SBDC has already qualified with Tinker. By the end of January, the SBDC projects they will be handling 25 procurements a week and Tinker Air Force Base personnel are already considering raising the \$5,000 limit to \$25,000.

In New Jersey, at the recommendation of Senator Bill Bradley's office, the Port Authority of New York-New Jersey approached the SBDC to help facilitate contracting between the tenants at Newark International Airport and small businesses in the area. As a result of the Senator's efforts, the Port Authority and the SBDC have just entered into a relationship which should accomplish that objective.

Other SBDCs, Florida for example, have on stream interactive computer systems that match small businesses with not only federal but also state and local procurement opportunities. In Florida, thirty thousand businesses a year participate in the system and some thirteen thousand bids are processed annually. Last year Florida's efforts resulted in \$35 million in procurement awards, up from \$13 million in 1985.

SBDC's are also involved in counseling small firms to raise capital. In Massachusetts, the SBDC's Capital Formation Service is specifically designed to assist smaller businesses pursue not only state and municipal sponsored financial assistance, but specialized federal loan programs such as the SBA's 503/504 loan program, SBIC program, and 7(a) loan program. Private venture capital is also utilized. To determine which financial avenue should be pursued, the SBDC provides a complete analysis of all options and identifies the one it believes to be most appropriate. To date, the Capital Formation Service center alone has helped secure over \$31 million for small businesses through a variety of sources. In FY 1986, 47 percent of the clients were manufacturers of both low and high tech products. The Massachusetts' SBDC's other five regional offices have channeled an additional \$44 million to small firms which have created 2,500 new jobs.

In North Carolina, the SBDC in performing its advocacy role, sponsored a meeting of 124 attorneys and accountants from around the state who discussed changes in state laws which would help small firms raise capital. As a result of the SBDC meeting, two bills have been enacted into law by the state which help improve small businesses' access to capital.

Time is too short to review the activities of each SBDC but we have attached to my testimony summaries of the activities of all our member SBDC's.

Also attached as an appendix is a counseling and training survey showing the private sector experience of the state SBDC Directors and the level of private sector involvement in providing counseling and training to our small business clients. This survey conclusively demonstrates that the managers of the state SBDC programs have a wealth of real business world experience and that professionals from the private sector are involved in a major way in the delivery of our counseling and training programs. And as the survey results show, these consultants and business persons are being leveraged at a very low cost.

Mr. Chairman, the benefits of the SBDC program are clear and documented. A nine state study commissioned a few year back by the ASBDC to assess the economic impact of long-term counseling concluded that sales by counseled firms increased by 25 percent more than other state firms while at the same time employment increased by 23 percent more than other state firms during the same 1980-1981 period. The study also concluded that the incremental tax return for each dollar invested in the SBDC program was almost \$11.

Frankly Mr. Chairman, SBA questioned the Association's findings and commissioned its own study by MetaMetrics Inc. That study, which I do not believe the agency has shared with your staff, supports the conclusions of the Association's study. To quote two paragraphs from MetaMetrics findings:

First

"Between the 1982 and 1984 updates of the D&B file (a period generally coinciding with 1981-1983), the average growth in sales for SBDC client firms was greater than that of the control firms. This difference was statistically significant. The average growth in sales was \$194,300 for SBDC firms and \$90,900 for control firms".

Second

"The average change in employment for SBDC client firms was greater and statistically significant as compared to the control firms. The average growth in employment was 2.6 employees for SBDC client firms (emphasis added). Control firms experienced an average decline in employment of 1.3 employees (emphasis added)".

In addition, the ASBDC is in the process of concluding a national impact study and we will, of course, furnish the Committee with the complete results as soon all as the data has been tabulated. For the moment we have data on 16 states. The cost

as the data has been tabulated. For the moment we have data on 16 states. The cost of providing in depth counseling (which is 12 hours or more per client) to new and existing business in those 16 states was \$3.7 million in 1985. We estimate that the clients responding generated \$11 million in new taxes through increased sales and full-time employment. Judging from these respondents in those 16 states, alone, almost \$3 in new revenue was generated for every dollar spent. If these small firms are representative of all small business clients served, then a total of \$56.5 million in new taxes were paid or, stated another way, over \$15 in additional tax revenue was generated in just one year for every dollar spent on our client small businesses. I think this study will again demonstrate conclusively the the program's benefits to the small business community.

Despite the program's benefits, the relationship between the SBA and its state partners has always been tenuous and strained. I believe this problem can be explained by several reasons.

First, Congress created the program because it desired to strengthen SBA's management assistance efforts which were being delivered to small business by SBA field employees. Thus, the SBDC program and its state participants were viewed by some SBA employees as threatening their jobs.

Second, federal funding for the SBDC program comes from the "salaries and expense" (S&E) line item in SBA's budget. This line item has not increased in several years but funding for the program has increased. Therefore, the program has been taking a bigger and bigger percentage of a static S&E budget. The combination of this funding factor with the first problem I mentioned has meant many of both SBA's field and central office employees, including political appointees, have had problems with the program.

Third, and most importantly today, there is a fundamental difference of opinion between SBA and the SBDC's as to the definition of partnership and where our partnership with the agency begins and where it stops. From our perspective, we believe the SBDC enabling legislation, the 1984 reauthorization legislation, the Federal Grants and Cooperative Agreements Act, the philosophical underpinnings of the program, and just the practical day-to-day administration of an SBDC require and necessitate a full and equal partnership between SBA and the SBDC's in both program delivery and in the implementation of Congressional policy.

SBA seems to disagree with this perspective. The agency's new view seems to be that it "runs" the program beginning with the authority to dictate terms of the cooperative agreement which is legally a negotiated instrument according to the Federal Grants and Cooperative Agreements Act and the program's 1984 reauthorization legislation. I would hasten to add that this view emanates from senior levels within the SBA and does not generally characterize our relationship with SBA district personnel that work with our program.

When Congress created the SBDC program it gave SBA the choice of basing the SBA/SBDC relationship on either a contract, grant, or cooperative agreement. In 1980 SBA chose the cooperative agreement arrangement and in 1984 Congress affirmed the agency's decision by requiring the exclusive use of cooperative agreements. Thus SBA chose the type of relationship for the program which is based on a negotiated instrument which resulted in the establishment of an equal partnership between SBA and the states. Congress explicitly required this partnership arrangement in the reauthorization legislation in 1984.

As a state employee, it is important for me to make clear that, on the whole, states supply considerably more than 50 percent of the resource for this program. According to SBA's latest statistics, states supply \$1.40 for each federal dollar contributed to the program. This is an indication of the states' local and private sector support for the program. Obviously, the states are more than an equal funding partner. In the reauthorization legislation Congress required a "hard cash" state match for the federal dollar and the result has been State SBDC Directors are much more involved with their legislatures and university budget officers than ever before. Today more than two-thirds of the SBDC's receive an appropriation from their state legislatures, either directly or through a university budget. Most importantly, the 1984 reauthorization legislation says "The small Business Development Center program shall be under the general management and oversight of the Administration, but with recognition that a partnership exists under this section between the Administration and the applicant for the delivery of assistance to the small business community. Services shall be provided pursuant to a negotiated cooperative agreement with full participation of both parties" (emphasis added).

Thus Mr. Chairman, in our view, both the statutory and philosophical underpinnings of the program demand a partnership between SBA and the SBDC. This is also true of program delivery as SBDC's cannot and should not be all things to all people. To avoid that trap, we must work closely with SBA field personnel in program delivery.

Under the administration of James Sanders, the partnership relationship took off and began to flourish. There were problems, but they were worked out through discussion and negotiation. For example, at SBA's request the SBDC's participated

with SBA in a review a problem SBDC, which as a result of the review, was defunded. In addition, the SBDC's felt that a peer review program was needed to insure that each SBDC program was meeting certain standards in order to comply with congressional intent. A system was developed and over the strenuous objection of SBA, the Congress approved an on-site review program as part of the reauthorization bill. This on-site review program mandates that each SBDC be reviewed periodically by a joint team of SBA officials and SBDC State Directors. To date nearly all SBDC's have been reviewed with many recommendations made to improve and strengthen programs. In one instance an SBDC has been directed to substantially overhaul its program, or potentially lose its status.

But the overall situation has deteriorated significantly since Jim Sanders left the agency and today I think it's at its lowest point ever. Nowhere is the demise of the partnership relationship clearer than in the agency's proposed regulations for the SBDC program. Regulations which were so bad in their proposed form that SBA claims that they have now been "90 percent" rewritten. Jim Sanders said the ASBDC would have a chance to review, discuss and negotiate the proposed regulations with the agency after they were published for comment, but before they went final. That commitment has not been honored by the agency.

Let me indicate just five ways in which these regulations affect the relationship between SBA and SBDC's, and also indicate why they are so bad.

First, as I have said, the legal document binding the SBA with its state partners is a cooperative agreement which under the Federal Grants and Cooperative Agreements Act of 1978 and the 1984 reauthorization legislation is to be a negotiated instrument. Yet the latest copy of the regulations which we have seen

says "final authority for the terms of the Cooperative Agreement rests with SBA". The philosophy of that statement is reflected throughout the proposed regulations and is in obvious conflict with the law and meaning of a cooperative agreement. How can a cooperative agreement be negotiated if SBA has final authority for the terms contained in such an agreement?

Second, and again as you know, the state partners of SBA are required by P.L. 96-302, which is the program's enabling legislation, and also the 1984 reauthorization legislation to match SBA's financial contribution to the program. In fact, as I said earlier, SBA's statistics indicate state, local and private sector sources provide \$1.40 for every federal dollar in the program. Yet in these regulations, SBA maintains the authority to establish "national priorities" and "regional priorities" for the program. Again, we signed a cooperative agreement, not a contract with SBA. Why should a state provide hard to find financial resources to the program when SBA can unilaterally dictate how those state's dollars are to be applied? As a former governor, I think you can imagine the reaction of governors and state legislators when they are told their state contributions will support initiatives mandated by SBA.

Further, this attempt by SBA to dictate national priorities conflicts with P.L. 96-302 and with SBA's "decentralized" management of the program which together were designed to assure that local small business needs are being met. "National priorities" fails to recognize, among other things, local economic situations. Where is the flexibility to recognize that the priorities in Arkansas are not necessarily the same as those in New York? This provision, along with others in the proposed regulation, is nothing less than an overt attempt by SBA to dictate terms to its state partners.

Third, although the language in the proposed regulations is not clear, one interpretation is that SBA maintains financial control over all SBDC dollars-- federal, state, local, private sector, and foundation -- including overmatch. I think you can guess the reaction this would evoke from our state, local and private funding partners. This is a frontal assault on the partnership aspect of the program. Certainly, SBA has a fiduciary responsibility to "manage" the program and to assure that federal dollars are being spent in compliance with the law, but this approach goes way beyond that responsibility. It gives SBA authority over every dollar in the program and is an attempt to totally control the program. We simply cannot defend to governors and state legislative committee chairmen SBA controlling the dollars the states expend on the program.

Four, the proposed regulations shift authority for the program in SBA's central office from the Deputy Associate Administrator for Management Assistance to the Office of Procurement and Grants Management. This is in direct contradiction to P.L.96-302 which places program authority with the Deputy Associate Administrator. Parenthetically, Mr. Chairman, we would be pleased to indicate to your staff other areas where these proposed regulations conflict with the law and congressional intent, as well as with OMB circulars.

Five, after attempting to control the SBDC program both pragmatically and financially, the agency then goes on in the proposed regulations to prohibit the State SBDC Director, his superior, or anybody else involved in the SBDC, or with to whomever else the State SBDC Director has contact, from using federal program

dollars to talk to his or her Senator or Congressman about legislation affecting the program or about any legislation affecting small business. SBDC's are also prohibited from entering into discussions about legislation with state legislators with the exception that we can talk to them about cash match requirements.

This total gag rule is based upon SBA's General Counsel Office interpretation of Section 601 of the agency's current appropriation bill and by that office's position that state laws prohibit the use of state money in "lobbying" our legislators.

SBA's position is wrong and without foundation. Section 601 says that federal agencies may not use federal funds for "publicity and propaganda" purposes. Neither the SBDC's nor the Association are a federal agency and we do not use federal funds to lobby or to help the agency sponsor and publicize itself.

Further, if state laws prohibit the use of the state funds for lobbying, then Governor Clinton of Arkansas and Governor McKernan of Maine, and every Governor who belongs to the National Governors Association, every state Attorney General who belongs to the National Association of State Attorneys General, every university president who belongs to the American Association of University Presidents, and every college that belongs to the association representing landgrant colleges is in violation of state laws. SBA has no standing to interpret state law for the state partners. Its position is obviously without merit.

What's more, the advocacy role Congress wants SBDC's to fulfill will never be realized if this provision of the proposed regulation takes effect. In that respect, the activity of the North Carolina SBDC which I referred to earlier would have been prohibited if these regulations were in effect.

Mr. Chairman, these proposed regulations are detailed and complex. I can go on and on discussing what is wrong with them. We commented extensively when the regulations were originally proposed and we will do so again. Although we are not convinced of the need for regulations, we can live with appropriate regulations. These proposed regulations are, however, not appropriate and we ask your help in seeing that they do not become final.

In closing Mr. Chairman, let me say the ASBDC and its members recognize that it is not Congress' role to manage a program, but we need your more active involvement in this one. The atmosphere that helped to create a very real partnership between the federal and state governments, the universities, the private sector and small business is being adversely impacted by current SBA administration policies, with the federal regulations being a prime example. The lack of flexibility to meet local small business needs will ultimately result in states pulling out of the program after having invested a great deal of time and money.

TABLE 1a
Sales and Employment for Long-term, Non-prevention Clients

	Georgia ¹	Connecticut ¹	Delaware ¹	Florida ¹	Kentucky ¹
a) Gross sales of respondents 1985	\$ 33,781,824	\$ 3,738,000	\$1,141,256	\$ 74,811,615	\$ 42,719,561
b) Gross sales of respondents 1986	\$ 37,298,961	\$ 6,957,000	\$2,078,589	\$ 92,646,395	\$ 51,526,595
Number of respondents	59	19	5	128	63
c) Full-time employees of respondents 1985	544	101	29	1,048	1,153
d) Full-time employees of respondents 1986	588	127	50	1,147	1,420
e) Part-time employees of respondents 1985	231	25	8	343	177
f) Part-time employees of respondents 1986	271	25	13	498	193
Number of respondents	70	15	5	152	69
g) Average gross sales per respondent 1985	\$ 572,573	\$ 196,737	\$ 285,314	\$ 584,466	\$ 678,088
h) Average gross sales per respondent 1986	\$ 632,186	\$ 366,158	\$ 415,718	\$ 723,800	\$ 817,882
i) Average FT/PT employees per respondent 1985	7.8/3.3	6.7/1.7	7.2/2.0	6.9/2.3	16.7/2.6
j) Average FT/PT employees per respondent 1986	8.4/3.9	8.5/1.7	10.0/2.6	7.5/3.3	20.6/2.8
k) Number of long-term, non-prevention clients 1985	327	149	10	923*	305
l) Gross sales for all long-term, non-prevention clients 1985	\$187,231,371	\$29,313,813	\$2,853,140	\$539,462,118	\$206,816,840
m) Gross sales for all long-term, non-prevention clients 1986	\$206,724,822	\$54,557,542	\$4,157,180	\$668,067,400	\$249,456,010
n) Full-time employees of all long-term, non-prevention clients 1985	2,550.6	998.3	72.0	6,368.7	5,093.5
o) Full-time employees of all long-term, non-prevention clients 1986	2,746.8	1,266.5	100.0	6,922.5	6,283.0

* - estimate

¹Includes only those respondents who claimed they benefited from SBDC services.

TABLE 1a (continued)

Sales and Employment for Long-term, Non-preventive Clients

	Louisiana ¹	Massachusetts ¹	Nebraska ¹	Tennessee	Washington ¹
a) Gross sales of respondents 1985	\$ 2,874,234	\$ 52,446,500	\$108,326,000	\$ 42,264,436	\$ 47,015,753
b) Gross sales of respondents 1986	\$ 3,194,788	\$ 72,168,012	\$121,960,000	\$ 50,940,924	\$ 53,752,587
Number of respondents	4	74	61	46	58
c) Full-time employees of respondents 1985	91	77	1,364	1,064	482
d) Full-time employees of respondents 1986	79	974	1,538	1,375	608
e) Part-time employees of respondents 1985	11	454	747	153	100
f) Part-time employees of respondents 1986	9	546	887	184	117
Number of respondents	4	80	87	59	74
g) Average gross sales per respondent 1985	\$ 718,559	\$ 708,736	\$ 1,775,840	\$ 982,894	\$ 810,616
h) Average gross sales per respondent 1986	\$ 798,697	\$ 975,243	\$ 2,540,830	\$ 1,107,411	\$ 926,769
i) Average FT/PT employees per respondent 1985	22.7/2.7	1.0/5.7	15.7/10.8	18.3/2.6	6.5/1.3
j) Average FT/PT employees per respondent 1986	19.7/2.2	12.2/6.8	18.1/12.2	23.7/3.1	8.2/1.6
k) Number of long-term, non-preventive clients 1985	15	418	285	150	244
l) Gross sales for all long-term, non-preventive clients 1985	\$10,778,385	\$296,251,648	\$506,114,400	\$147,434,100	\$197,790,304
m) Gross sales for all long-term, non-preventive clients 1986	\$11,980,455	\$407,651,574	\$724,136,550	\$166,111,650	\$226,131,636
n) Full-time employees of all long-term, non-preventive clients 1985	340.5	418.0	4,474.5	2,745.0	1,586.0
o) Full-time employees of all long-term, non-preventive clients 1986	295.5	5,099.6	5,158.5	3,555.0	2,000.8

¹ Includes only those respondents who claimed they benefited from SBDC services.

TABLE 1a (continued)
Sales and Employment for Long-term, Non-preventive Clients

	Arkansas ¹	Maine ¹	Utah ¹	Michigan ¹	Oregon ¹
a) Gross sales of respondents 1985	\$ 31,093,796	\$ 46,112,000	\$17,428,881	\$13,047,993	\$16,134,889
b) Gross sales of respondents 1986	\$ 35,344,241	\$ 50,173,000	\$20,909,054	\$15,007,364	\$18,671,006
Number of respondents	24	38	41	8	60
c) Full-time employees of respondents 1985	391	934	315	152	228
d) Full-time employees of respondents 1986	446	985	313	186	246
e) Part-time employees of respondents 1985	133	195	181	23	125
f) Part-time employees of respondents 1986	132	238	176	25	137
Number of respondents	30	37	52	8	49
g) Average gross sales per respondent 1985	\$ 1,295,575	\$ 1,213,474	\$ 425,095	\$ 1,630,999	\$ 268,915
h) Average gross sales per respondent 1986	\$ 1,472,677	\$ 1,320,342	\$ 509,977	\$ 1,875,920	\$ 311,183
i) Average FT/PT employees per respondent 1985	13.0/4.4	25.2/5.3	6.1/3.5	19.0/2.8	4.6/2.5
j) Average FT/PT employees per respondent 1986	14.9/4.4	26.6/6.4	6.0/3.4	23.2/3.1	5.0/2.8
k) Number of long-term, non-preventive clients 1985	100*	103	160*	25	190*
l) Gross sales for all long-term, non-preventive clients 1985	\$129,557,500	\$124,987,822	\$68,015,200	\$40,774,975	\$51,093,850
m) Gross sales for all long-term, non-preventive clients 1986	\$147,267,700	\$135,995,226	\$81,596,320	\$46,898,000	\$59,124,770
n) Full-time employees of all long-term, non-preventive clients 1985	1,300.0	2,595.6	976.0	475.0	874.0
o) Full-time employees of all long-term, non-preventive clients 1986	1,490.0	2,739.8	960.0	580.0	950.0

* - estimate

¹ Includes only those respondents who claimed they benefited from SBDC services.

TABLE 1a (continued)
Sales and Employment for Long-term, Non-preventive Clients

Rhode Island¹

a) Gross sales of respondents 1985	\$18,945,936
b) Gross sales of respondents 1986	\$21,678,646
Number of respondents	49
c) Full-time employees of respondents 1985	453
d) Full-time employees of respondents 1986	453
e) Part-time employees of respondents 1985	150
f) Part-time employees of respondents 1986	185
Number of respondents	60
g) Average gross sales per respondent 1985	\$ 386,652
h) Average gross sales per respondent 1986	\$ 442,421
i) Average FT/PT employees per respondent 1985	7.6/2.5
j) Average FT/PT employees per respondent 1986	7.6/3.1
k) Number of long-term, non-preventive clients 1985	117
l) Gross sales for all long-term, non-preventive clients 1985	\$45,238,284
m) Gross sales for all long-term, non-preventive clients 1986	\$51,763,257
n) Full-time employees of all long-term, non-preventive clients 1985	889.2
o) Full-time employees of all long-term, non-preventive clients 1986	889.2

* - estimate

¹ Includes only those respondents who claimed they benefited from SBDC services.

TABLE 1b
Sales and Employment for Long-term, Preventure Clients

	Georgia ¹	Connecticut ¹	Delaware ¹	Florida ¹	Kentucky ¹
a) Gross sales of respondents 1985	\$ 1,182,220	\$ 773,000	---	\$ 170,504	\$ 2,549,368
b) Gross sales of respondents 1986	\$ 4,403,167	\$ 2,457,000	\$ 75,000	\$ 1,126,331	\$ 4,300,202
Number of respondents	28	12	1	13	25
c) Full-time employees of respondents 1985	28	12	---	26	77
d) Full-time employees of respondents 1986	58	32	1	46	92
e) Part-time employees of respondents 1985	42	17	---	17	51
f) Part-time employees of respondents 1986	73	31	1	20	64
Number of respondents	33	18	1	20	26
g) Average gross sales per respondent 1985	\$ 42,222	\$ 64,417	---	\$ 13,116	\$ 101,975
h) Average gross sales per respondent 1986	\$ 157,256	\$ 204,750	\$ 75,000	\$ 86,641	\$ 172,008
i) Average FT/PT employees per respondent 1985	.8/1.3	.7/.9	---	1.3/.8	3.0/2.0
j) Average FT/PT employees per respondent 1986	1.8/2.2	1.8/1.7	1.0/1.0	2.3/1.0	3.5/2.5
k) Percentage of respondents who went into business	50%	66%	100%	57%	50%
l) Number of long-term, preventure clients 1985	294	103	8	230*	240
m) Gross sales for all long-term, preventure clients 1985 (based on k*1)	\$ 6,206,634	\$ 4,379,068	---	\$ 1,719,508	\$12,237,000
n) Gross sales for all long-term, preventure clients 1986 (based on k*1)	\$23,116,632	\$13,918,905	\$600,000	\$11,358,635	\$20,640,960
o) Full-time employees of all long-term, preventure clients 1985 (based on k*1)	117.6	47.6	0	170.4	360.0
p) Full-time employees of all long-term, preventure clients 1986 (based on k*1)	264.6	122.4	8.0	301.5	420.0

* - estimate

¹Includes only those respondents who claimed they benefited from SBDC services.

TABLE 1b (continued)
Sales and Employment for Long-term, Preventure Clients

	Louisiana ¹	Massachusetts ¹	Nebraska ¹	Tennessee	Washington ¹
a) Gross sales of respondents 1985	\$1,293,264	\$1,710,787	\$1,326,000	\$225,000	\$1,918,063
b) Gross sales of respondents 1986	\$2,119,535	\$4,804,903	\$3,095,000	\$709,000	\$8,636,770
Number of respondents	7	33	11	5	30
c) Full-time employees of respondents 1985	47	62	61	18	52
d) Full-time employees of respondents 1986	62	94	122	82	98
e) Part-time employees of respondents 1985	17	63	65	11	26
f) Part-time employees of respondents 1986	33	102	83	15	36
Number of respondents	9	37	19	6	37
g) Average gross sales per respondent 1985	\$184,752	\$51,842	\$147,330	\$56,250	\$63,935
h) Average gross sales per respondent 1986	\$302,791	\$145,603	\$281,360	\$141,800	\$287,892
i) Average FT/PT employees per respondent 1985	5.2/2.4	1.7/1.7	3.6/5.9	3.6/2.2	1.4/.7
j) Average FT/PT employees per respondent 1986	6.9/4.1	2.5/2.7	6.4/5.2	13.7/2.5	2.6/1.0
k) Percentage of respondents who went into business	59%	74%	37%	64%	50%
l) Number of long-term, preventure clients 1985	35	191	105	30	172
m) Gross sales for all long-term, preventure clients 1985 (based on k*1)	\$3,815,129	\$7,327,348	\$5,723,770	\$1,080,000	\$5,498,410
n) Gross sales for all long-term, preventure clients 1986 (based on k*1)	\$6,252,634	\$20,579,528	\$10,930,836	\$2,722,560	\$24,758,712
o) Full-time employees of all long-term, preventure clients 1985 (based on k*1)	107.4	240.3	139.9	69.1	120.4
p) Full-time employees of all long-term, preventure clients 1986 (based on k*1)	142.5	353.3	248.6	263.0	223.6

¹ Includes only those respondents who claimed they benefited from SBDC services.

TABLE 1b (continued)

Sales and Employment for Long-term, Preventure Clients

	Arkansas ¹	Maine ¹	Utah ¹	Michigan ¹	Oregon ¹
a) Gross sales of respondents 1985	\$ 568,878	\$1,458,000	\$ 366,000	\$ 900,000	---
b) Gross sales of respondents 1986	\$1,267,317	\$1,953,000	\$ 635,000	\$ 962,000	\$ 85,429
Number of respondents	14	12	3	4	1
c) Full-time employees of respondents 1985	48	68	4	5	---
d) Full-time employees of respondents 1986	65	171	12	15	0
e) Part-time employees of respondents 1985	31	69	5	2	---
f) Part-time employees of respondents 1986	34	94	19	4	3
Number of respondents	19	20	5	4	1
g) Average gross sales per respondent 1985	\$ 40,634	\$ 121,500	\$ 122,000	\$ 225,000	---
h) Average gross sales per respondent 1986	\$ 90,523	\$ 162,750	\$ 211,667	\$ 240,500	\$ 85,429
i) Average FT/PT employees per respondent 1985	2.5/1.6	3.4/3.4	.8/1.0	1.2/.5	---
j) Average FT/PT employees per respondent 1986	3.4/1.8	8.5/4.7	2.4/3.8	3.7/1.0	0/3.0
k) Percentage of respondents who went into business	60%	73%	31%	44%	100%
l) Number of long-term, preventure clients 1985	104*	66	41*	54	82*
m) Gross sales for all long-term, preventure clients 1985 (based on k*1)	\$2,535,562	\$5,553,870	\$ 4,651,850	\$5,346,000	---
n) Gross sales for all long-term, preventure clients 1986 (based on k*1)	\$5,648,635	\$7,841,295	\$ 8,070,850	\$5,714,280	\$7,005,178
o) Full-time employees of all long-term, preventure clients 1985 (based on k*1)	156.0	163.8	10.2	28.5	0
p) Full-time employees of all long-term, preventure clients 1986 (based on k*1)	212.2	409.5	30.5	87.9	0

* -- estimate

¹ Includes only those respondents who claimed they benefited from SBDC services.

TABLE 1b (continued)
Sales and Employment for Long-term, Preventure Clients

Rhode Island¹

a) Gross sales of respondents 1985	---
b) Gross sales of respondents 1986	\$ 708,922
Number of respondents	11
c) Full-time employees of respondents 1985	---
d) Full-time employees of respondents 1986	13
e) Part-time employees of respondents 1985	---
f) Part-time employees of respondents 1986	23
Number of respondents	13
g) Average gross sales per respondent 1985	---
h) Average gross sales per respondent 1986	\$ 64,447
i) Average FT/PT employees per respondent 1985	---
j) Average FT/PT employees per respondent 1986	1.0/1.8
k) Percentage of respondents who went into business	38%
l) Number of long-term, preventure clients 1985	41
m) Gross sales for all long-term, preventure clients 1985 (based on k*1)	---
n) Gross sales for all long-term, preventure clients 1986 (based on k*1)	\$1,004,084
o) Full-time employees of all long-term, preventure clients 1985 (based on k*1)	---
p) Full-time employees of all long-term, preventure clients 1986 (based on k*1)	15.6

* - estimate

¹ Includes only those respondents who claimed they benefited from SHDC services.

TABLE 2a

1985-86 Percentage Change in Sales and Employment for
Long-term, Non-preventure Clients

<u>State</u>	<u>Sales</u>	<u>Full-time Employees</u>	<u>Part-time Employees</u>
Georgia	10.4%	8.1%	17.3%
Massachusetts	37.6%	1,164.9%	20.3%
Connecticut	86.1%	25.7%	0.0%
Louisiana	11.1%	-13.2%	-18.2%
Delaware	82.1%	72.4%	62.5%
Kentucky	20.6%	23.2%	9.0%
Tennessee	20.5%	29.2%	20.3%
Florida	23.8%	9.4%	45.2%
Washington	14.3%	26.1%	17.0%
Nebraska	12.6%	12.8%	18.7%
Arkansas	13.7%	14.1%	-1.0%
Maine	8.8%	5.5%	22.0%
Utah	20.0%	-.6%	-2.8%
Michigan	15.0%	22.4%	8.7%
Oregon	15.7%	7.9%	9.6%
Rhode Island	14.4%	0.0%	23.3%

TABLE 2b

1985-86 Percentage Change in Sales and Employment for
Long-term, Preventure Clients

<u>State</u>	<u>Sales</u>	<u>Full-time Employees</u>	<u>Part-time Employees</u>
Georgia	272.4%	125.0%	69.2%
Massachusetts	180.9%	51.6%	61.9%
Connecticut	217.8%	166.7%	82.3%
Louisiana	63.9%	31.9%	94.1%
Delaware	*	*	*
Kentucky	68.7%	19.5%	25.5%
Tennessee	215.1%	355.5%	36.4%
Florida	560.6%	76.9%	17.6%
Washington	350.3%	88.4%	38.5%
Nebraska	133.4%	100.0%	27.7%
Arkansas	122.8%	35.4%	9.7%
Maine	33.9%	151.4%	36.2%
Utah	73.5%	200.0%	280.0%
Michigan	6.9%	200.0%	100.0%
Oregon	*	*	*
Rhode Island	*	*	*

* - no 1985 employees or sales

TABLE 3a

Impact of Sales and Employment Increase of Non-preventive
Respondents on State and Federal Tax Collections

	<u>Total</u>	<u>Incremental Change</u>	<u>Average Sales Tax</u>	<u>Sales Tax Collections</u>
Gross sales for non-preventive 1985 respondents of all 16 SBDs	\$551,882,674	\$102,426,488	4.65%	\$4,762,738.69
Gross sales for non-preventive 1986 respondents of all 16 SBDs	\$654,307,162			
	<u>Total</u>	<u>Incremental Change</u>	<u>Per Capita¹ Personal Income Tax</u>	<u>Personal Income* Tax Collections</u>
Full-time employment for non-preventive 1985 respondents of all 16 SBDs	8,426	2,109	\$1,998.09	\$4,213,971.81
Full-time employment for non-preventive 1986 respondents of all 16 SBDs	10,535			
				<u>Total State & Federal* Tax Collections</u>
				\$8,976,710.50

¹ Average of estimated per capita income tax for 11 of the 16 states.

*Does not include personal income tax collections derived from part-time employees.

TABLE 3b

Impact of Sales and Employment Increase of Preventure
Respondents on State and Federal Tax Collections

	<u>Total</u>	<u>Incremental Change</u>	<u>Average Sales Tax</u>	<u>Sales Tax Collections</u>
Gross sales for preventure 1985 respondents of all 16 SBDCs	\$14,441,084			
Gross sales for preventure 1986 respondents of all 16 SBDCs	\$37,338,576	\$22,897,492	4.65%	\$1,064,733.38
Full-time employment for preventure 1985 respondents of all 16 SBDCs	508			<u>Personal Income* Tax Collections</u>
Full-time employment for preventure 1986 respondents of all 16 SBDCs	963	455	\$1,998.09	\$909,130.95
				<u>Total State & Federal* Tax Collections</u>
				\$1,973,864.33

1. Average of estimated per capita income tax for 11 of the 16 states.

*Does not include personal income tax collections derived from part-time employees.

TABLE 4a
Impact of Sales and Employment Increase of All Long-term,
Non-preventive Clients on State and Federal Tax Collections

	<u>Total Extrapolated Gross Sales</u>	<u>Incremental Change</u>	<u>Average Sales Tax</u>	<u>Sales Tax Collections</u>
Gross sales for all long-term, non-preventive clients 1985	\$2,583,713,750	\$657,904,342	4.65%	\$30,592,551.90
Gross sales for all long-term, non-preventive clients 1986	\$3,241,618,092			
	<u>Total Extrapolated Employment</u>	<u>Incremental Change</u>	<u>Per Capita Personal Income Tax</u>	<u>Personal Income* Tax Collections</u>
Full-time employment for all long-term, non-preventive clients 1985	31,756.9	9,280.3	\$1,998.09	\$18,542,874.63
Full-time employment for all long-term, non-preventive clients 1986	41,037.2			
				<u>Total State & Federal* Tax Collections</u>
				\$49,135,426.53

¹ Average of estimated per capita income tax for 11 of the 16 states.

* - Does not include personal income tax collections derived from part-time employees.

TABLE 4b

Impact of Sales and Employment Increase of All Long-term,
Preventure Clients on State and Federal Tax Collections

	<u>Total Extrapolated Gross Sales</u>	<u>Incremental Change</u>	<u>Average Sales Tax</u>	<u>Sales Tax Collections</u>
Gross sales for all long-term, preventure clients 1985	\$ 66,374,149	\$103,789,575	4.65%	\$4,826,215.24
Gross sales for all long-term, preventure clients 1986	\$170,163,724			
	<u>Total Extrapolated Employment</u>	<u>Incremental Change</u>	<u>Per Capita Personal Income Tax</u>	<u>Personal Income* Tax Collections</u>
Full-time employment for all long- term, preventre clients 1985	1,731.2	1,364	\$1,998.09	\$2,725,394.76
Full-time employment for all long- term, preventre clients 1986	3,095.2			
				<u>Total State & Federal* Tax Collections</u>
				\$7,551,610.00

¹ Average of estimated per capita income tax for 11 of the 16 states.

* - Does not include personal income tax collections derived from part-time employees.

SBDC SURVEY RESULTS

SBDC Name	State Directors Years in Private Sector	State Directors Private Sector Work Experience	% SBDC Counseling Through Private Source	% SBDC Counseling Cost Reimbursement Basis	%SBDC Training Through Private Sector	%SBDC Training Cost Reimbursement Basis	Number of Private Sector Consultants Provided Counseling/Training
Alabama	4	Management Technical	5	2	50	5	75
Alaska	6	Marketing	15	15	15	15	N/A
Arkansas	9	CPA, Auditor	None	None	50	2	200
Connecticut	30	Management	15	2	15	1	85
Delaware	10	Management	5	5	50	40	22
District of Columbia	7	CPA	25	0	20	0	250
Florida	2	Manufacturing	5	1	50	0	400
Georgia	4	Advertising	10	5	48	10	146
Idaho	15	Management	10	5	15	3	25
Illinois	10	Entrepreneur	12	90	35	90	25
Indiana	20	Management	90	0	100	80	8
Iowa	30	Management	37	37	35	35	160
Kansas	17	Management Marketing	27	25	26	19	122

<u>SBDC Name</u>	<u>State Directors Years in Private Sector</u>	<u>State Directors Private Sector Work Experience</u>	<u>% SBDC Counseling Through Private Source</u>	<u>% SBDC Counseling Cost Reimbursement Basis</u>	<u>%SBDC Training Through Private Sector</u>	<u>%SBDC Training Cost Reimbursement Basis</u>	<u>Number of Private Sector Consultants Provided Counseling/Training</u>
Kentucky	39	Management Accounting	10	N/A	116	66	116
Louisiana	23	Management	5	5	30	20	65
Massachusetts	14	Economic Development	10	98	72	67	263
Michigan	4	Management	9	5	20	10	40
Minnesota	8	Management	26	26	40	35	111
Mississippi	19	Management	5	5	40	30	32
Missouri	25	Marketing	40	15	90	10	425
Nebraska	8	Publishing Printing	10	10	25	18	21
New Hampshire	10	Attorney Management	5	3	60	40	12
New Jersey	5	Marketing	14	14	80	40	160
New York	7	Marketing Finance	5	8	40	5	100
Nevada	8	Marketing Management	30	28	60	40	200
North Carolina	15	Attorney Corp. Executive	5	less than 10	75	None	12

<u>SBDC Name</u>	<u>State Directors Years in Private Sector</u>	<u>State Directors Private Sector Work Experience</u>	<u>% SBDC Counseling Through Private Source</u>	<u>% SBDC Counseling Cost Reimbursement Basis</u>	<u>% SBDC Training Through Private Sector</u>	<u>% SBDC Training Cost Reimbursement Basis</u>	<u>Number of Private Sector Consultants Provided Counseling/Training</u>
North Dakota	17	Retail Management	0	0	20	7	2
Ohio	1	Market Research Consulting	95	8	95	8	25
Oklahoma	43	Technical Management	5	3	10	0	53
Oregon	5	Sales/Marketing	18	10	74	24	340
Pennsylvania	4	Management	14	10	75	0	80
Puerto Rico	10	Management Marketing	20	5	50	20	27
Rhode Island	5	Technical	83	75	85	30	75
South Carolina	21	Accounting Banking	2	2	23	23	35
South Dakota	14	Entrepreneur	5	4	50	30	12
Tennessee	19	Management Auditor	10.8	8	92	0	231
Texas (Houston)	15	Management	53	0	80	0	40
Texas (Northeast)	5	Management	N/A	N/A	N/A	N/A	N/A

<u>SBDC Name</u>	<u>State Directors Years in Private Sector</u>	<u>State Directors Private Sector Work Experience</u>	<u>% SBDC Counseling Through Private Source</u>	<u>% SBDC Counseling Cost Reimbursement Basis</u>	<u>%SBDC Training Through Private Sector</u>	<u>%SBDC Training Cost Reimbursement Basis</u>	<u>Number of Private Sector Consultants Provided Counseling/Training</u>
Texas (Northwest)	12	Management	N/A	N/A	N/A	N/A	N/A
Texas (South-Border)	13	Entrepreneur Management	0	0	50	10	5
Utah	13	Management Marketing	35	25	65	40	30
Vermont	10	Business Owner	8	8	20	10	10
Virgin Islands	16	Management Consulting	15	10	40	0	50
Washington	15	Marketing Management	2	5	95	100	101
West Virginia	25	Management	5	0	15	0	75
Wisconsin	13	Economic Development	22	19	12	12	94
Wyoming	9	Management Sales	60	11	60	40	35

TABLE 5

<u>State</u>	<u>Total 1985 SBDC Budgets for LT Clients</u>	<u>Estimated Amount Used for Preventure Clients</u>	<u>Estimated Amount Used for Non-preventure Clients</u>
Georgia	\$ 534,554	\$ 251,240	\$ 283,314
Massachusetts	577,206	69,265	507,941
Connecticut	200,000	80,000	120,000
Louisiana	149,064	59,626	89,438
Delaware	9,320	3,728	5,592
Kentucky	461,523	143,072	318,451
Tennessee	151,142	90,685	60,457
Florida	273,354	128,476	144,878
Washington	590,654	295,327	295,327
Nebraska	242,613	48,523	194,090
Arkansas	315,000	158,000	157,000
Maine	60,200	24,080	36,120
Utah	40,000	800	39,200
Rhode Island	51,000	20,400	30,600
TOTAL	\$3,655,630	\$1,373,222	\$2,282,408

TABLE 6

1985 Preventure Respondents Who Went into Business

	Number of respondents who had started business as of summer 1987	% of those responding to question
Georgia	43	50%
Massachusetts	39	74%
Connecticut	23	66%
Louisiana	10	59%
Delaware	1	100%
Kentucky	41	50%
Tennessee	9	64%
Florida	28	57%
Washington	44	50%
Nebraska	23	37%
Arkansas	30	60%
Maine	29	73%
Utah	5	31%
Michigan	4	44%
Oregon	1	100%
Rhode Island	11	38%
TOTAL	341	Average = 56%

The CHAIRMAN. Dr. Schlafmann.

Senator BOND. May I interrupt? I apologize. Because of my lengthy questioning, this has gone longer than I expected.

I have an 11:30 engagement that I have to get to. But I did not want to leave without commending Mr. Hale for giving up a St. Louis and Missouri holiday today to come in. Had it not been for this important hearing, I certainly would not have been on deck.

I trust he will comment on why the applications were incomplete, and other aspects of the questions which I addressed to the SBA, and I will look forward to reviewing them in the record.

And I apologize, Dr. Schlafmann, that I have to miss your testimony as well.

The CHAIRMAN. Thank you. Dr. Schlafmann, please proceed.

**STATEMENT OF DR. NORMAN J. SCHLAFMANN, STATE DIRECTOR,
MICHIGAN SMALL BUSINESS DEVELOPMENT CENTER, WAYNE
STATE UNIVERSITY, DETROIT, MI**

Dr. SCHLAFMANN. I have also submitted a prepared statement which I would like made a part of the hearing record, if it pleases you, Mr. Chairman.

The CHAIRMAN. It will be inserted.

Dr. SCHLAFMANN. As a preface to my statement, I wish for you to know that I believe the Congress created an excellent small business support program which has proven very successful in Michigan. I will highlight some of the success we have experienced in Michigan prior to addressing some of my concerns with the national SBDC Program.

Now in its 5th year of operation, the Michigan SBDC today is an important component of the economic development infrastructure of Michigan. The Michigan program grew from 8 centers to 26 centers last year, and will continue to grow to 36 centers in fiscal year 1988. These centers are located at, and generously supported by local communities, chambers of commerce, and academic institutions.

The unusual distribution pattern of centers in Michigan highlights one way our program differs from other States. Although established as a traditional academic-based program, the Michigan SBDC network of outreach centers has now expanded to include many organizations as partners in its delivery system.

The Michigan program strongly emphasizes the partnership concept. Our equal partnership arrangements exist with the Michigan Department of Commerce, chambers of commerce, community and county governments, local economic growth corporations, and educational institutions. Together with the Michigan Department of Commerce we cooperatively sponsor a total of 50 small business assistance centers.

Michigan's successful partnership program is made possible because the SBDC Program was created by Congress with the wisdom and foresight to accommodate flexibility among the State centers, and to let each State determine and serve the special needs of its own small business community. Geographic, population, climatic, and resource factors differ widely among the States resulting in variable small business needs that can only be met with maximum

effectiveness if each State is free to base its SBDC Program on specific local requirements. Such flexibility enables each State to avoid duplicating existing State programs in its SBDC Program and to design program activities for existing rather than hypothetical small businesses.

Each partner in this united effort to serve small businesses pays a fair part of the cost. Thus, the Michigan partnership approach is a highly effective way to leverage Federal dollars. Almost 60 percent of our 1988 funds will come from the State of Michigan, local governments, and the private and academic sectors. At present, nonfederal sources directly contribute 3 dollars for every 2 Federal dollars. The ratio of nonFederal to Federal funding becomes \$5 to \$2 when we include the affiliated small business programs sponsored by our partner, the Michigan Department of Commerce.

Why is Federal support for the SBDC Program critically important? Without Federal funds and the SBDC foundation they provide, our successful leveraging would not be possible. There is no leverage until we have a lever. Without your help, many essential small business support efforts would disappear in Michigan and elsewhere. That would hurt the Nation badly, because small business is still the Country's No. 1 hope to become competitive and maintain prosperity.

What are some of the accomplishments of Michigan's SBDC partnership program during the past 4 years? Dramatic growth is one. In our first year we had 400 counseling clients, this year over 4,500. Over 4 years we provided 34,500 counseling hours for 8,100 small businesses. The first year we sponsored 88 training programs, this year approximately 500 with 12,000 participants. Our 4 year totals are 1,500 training programs, 7,900 training hours, and 41,000 attendees.

Other SBDC partnership accomplishments last year include: over 20,000 small business entrepreneurs sought information and advice from the centers, 583 small businesses were started, 2,158 new jobs were created, and 3,421 jobs were retained in Michigan through the assistance of local SBDC centers.

Sometimes individual SBDC results seem undramatic, because a specific success may involve the creation of only one or two jobs. When cumulatively considered, however, these jobs are immensely important to their local communities and to the State. The significantly large and expanding number of new jobs produced with the support of the Michigan SBDC contrasts with the contracting workforce in the midwest region of large industries such as automobile manufacturing. The fact that the SBDC Program adds steadily to, rather than subtracts from the job total is a strong argument for the merit and continuation of this valuable program.

Michigan's SBDC specialty centers provide a wide variety of services statewide, including evaluation of inventions and innovations, technology transfer assistance, tourism industry development, international trade support, and R&D assistance. Our R&D support, for instance, helped Michigan step up its success in the Federal Small Business Innovation Research competition by over 700 percent. SBIR awards exceeding \$5 million now come to Michigan each year.

Some results are intangible and cannot be illustrated with numbers. The SBDC network makes small business experts available to provide aid, encouragement, practical advice all across Michigan. Entrepreneurs often contact their local SBDC centers with hot ideas but limited experience in knowing how to proceed. After consultation with SBDC counselors, such expectant small business owners often decide to postpone going into business until they can meet the business plan, market research, personal commitment, and financial investment requirements of business ownership. With SBDC expertise to identify danger points and causes of failure, such individuals are protected against losing their life savings by preparing properly for the responsibility of starting a business—which, parenthetically speaking, may be as important a contribution to our economy as many of our other accomplishments.

Through our special emphasis programs, the number of women, minorities, and veterans served increases steadily. In 1987 counseling clients were 45 percent women, 16 percent minorities, and 20 percent veterans. Special programs to address the special needs of farmers (agribusiness), native Americans and handicappers are important aspects of the Michigan SBDC Program.

We have been very encouraged by the level of client satisfaction regularly documented in our annual evaluation process. Last year, for example, of the clients who received 2 or more hours of counseling and responded to our survey—524 out of 1,470 total clients, or 36 percent:

Over 75 percent said they would advise other small business people to contact the SBDC.

74 percent rated the consulting services good to excellent. For those clients who received more than 11 hours of counseling—long-term—the approval rate jumped to 87 percent.

67 percent affirmed that the SBDC was effectively responsive in meeting specific small business needs—77 percent for long term counseling clients.

54 percent—64 percent long term—said the SBDC counselors pointed out other problem areas as well and helped the small businesses solve these problems.

Incidentally, these positive results do not simply occur by happenstance. We work hard in Michigan to provide quality programs and services. We will support only those centers which have proven professional counselors and trainers as members of their organizations. Together with the Michigan Department of Commerce, we offer a series of staff development workshops each year. And, we are currently planning a Certification Program by which to upgrade and certify the knowledge base and skills of our center directors and staffs.

In summary, I can report that the SBDC Program works well for Michigan through a partnership arrangement that allows local communities to choose SBDC services designed for their particular needs. I particularly want to emphasize making State agencies, local communities, colleges, universities, and the private sector equal and contributing partners in the SBDC process. When this is done, SBDC officials have to remember that if the control strings from State administrative offices or the SBA are pulled too tight, local enthusiasm may get strangled. Our experience stresses the

vital obligation to encourage, support, and strengthen grassroots enthusiasm.

Were I to have designed the Michigan SBDC Program with a primary emphasis upon efficiency and accountability, I would have designed a considerably different program than that which I just described. With those concerns foremost, I would probably have recommended a program with a firm chain of command and center directors entirely accountable to the State director, fewer sub-centers to keep the network manageable, and all funds contributed by the participating partners being distributed through the Michigan SBDC Administrative Office so the State director would have total power over the program.

In the pursuit of theoretical organization and control in a firmly regulated organization, any management specialist might have advocated a program that in no way resembles the existing Michigan program. And the specialists would be wrong, because the Michigan SBDC Program shrugs aside such concerns and works splendidly, if somewhat freely from a purely management viewpoint.

The Michigan SBDC works exceptionally well because local communities decide where SBDC centers should be located and who should manage them. This approach works because it helps communities help themselves, and as a result, many more communities in Michigan than were originally anticipated organized action groups and committed substantial local resources to support SBDC centers. Their motive was not altruistic. They needed SBDC services and considered their local SBDC centers community responsibilities as well as community possessions.

The Michigan SBDC Program works because the State and all major contributing parties are treated as equal partners. They are not required to turn over their contributions to a Federal agency in order to participate, and they retain the right to indicate how their resources should be spent for optimum results in the light of local needs and conditions.

The partnership issue, as you have gathered, is most important to me. On the one hand, I am most proud of how we have made it work in Michigan, but on the other hand, it is my greatest concern with respect to the way the SBDC Program is currently being managed by the SBA. I have just received an advanced copy of SBA's republished proposed regulations for the SBDC Program. Upon preliminary assessment, I find them seriously deficient in this area. Every indication is that the SBA at the national headquarters level—and I stress that level, Mr. Chairman, because you will find my prepared statement full of compliments for the working relationship the Michigan SBDC has established with its District—Detroit—and Regional—Chicago—offices—the national SBA office is attempting to fully control the program and dictate its policies from Washington rather than share this responsibility with its various partners.

I ask you, Members of the Committee, why should State and local organizations submit themselves to the dictates of their big Federal brother when they contribute more to the program than he does, and when they understand local needs better than he does.

That is precisely the message of Michigan Governor James Blanchard's letter of September 16, 1986, addressed to you, Mr. Chair-

man. As a former Congressman he is well aware of the need for the Federal Government to effectively manage programs supported with taxpayer's money. But, "These regulations," he wrote, "go beyond good management." He goes on to say:

They exceed governmentwide circulars, and assume the State's contribution to the program automatically becomes a Federal dollar under the control of the SBA. They impose uniform requirements upon all SBDCs and, thus, restrict creative response to individual State and community requirements.

The proposed regulations, in sum, usurp the congressional intent behind cooperative agreements and the partnership basis of the program. These regulations are neither in the best interest of the MI-SBDC nor of Michigan's small business community.

Keep in mind that local groups greatly prefer minding their own stores to having absentee landlords in this city send them orders and regulations. A gentle way to say it is that smothering local initiative is not the way to go.

Let me quickly address two additional concerns I have with the SBDC Program in the time that remains. The first has to do with the volume of paperwork by which this program operates, and the next concerns the perception of unenthusiastic support of the SBDC Program by the SBA.

Because of all the required reports, records, program assessments, documentation of program effectiveness, self studies, impact studies, audits, certification evaluations, annual reapplications, and so forth, I estimated in my prepared statement that I and my administrative staff devote 4-6 months of our time each year to prepare these materials. Think of it, $\frac{1}{3}$ to $\frac{1}{2}$ of our time is consumed with paperwork activities which might better be spent planning programs and developing new services for small businesses.

My concern over SBA's lack of recognition and support of the SBDC Program grows out of various SBA publications and public presentations during which no mention of the SBDC Program was made, or it was greatly de-emphasized.

I leave two examples with you. Recently no mention was made of the SBDC Program in the handsome 1987 publication, *A Tribute to Small Business: America's Growth Industry*. Slight mention was made of the program in the SBA's *Annual Report, Fiscal Year 1986*. Although the SBDC is the SBA's largest business assistance delivery program, the SBA 1986 Annual Report said only: "The Agency's business development officers have become true resource managers, blending the skills of 12,000 Service Corps of Retired Executives (SCORE), volunteers, 520 small business institutes, 49 small business development centers, many of the 2,700 local chambers of commerce and other business development resource groups."

This statement is a subtle downplaying of the SBDC Program and illustrative of what seems a calculated effort to undercut it. The statement does not explain to readers that while all SCORE volunteers, SBIs, and chambers of commerce are counted, the SBDC Program is reduced to the number of States with SBDC activities. The full scope of SBDC activities nationwide is not mentioned. If the total number of SBDC subcenters, sponsors, supporting institutions, professional counselors, and volunteers had been stated, the figure would overwhelmingly exceed all the other men-

tioned SBA programs combined. I am greatly concerned about the attitude of the central SBA staff toward the SBDC Program as indicated by such statements that tend to denigrate the true significance and full importance of the SBDC Program in Michigan and other States.

Based upon the Michigan experience, I have offered eight recommendations for the improvement of the national SBDC Program which appear in my prepared statement.

Despite some drawbacks, a few adversaries, and paper mania, the SBDCs are superb examples of Federal, State, and local partnerships that work beautifully if we let them. It is a cliché, but true that small business is the Nation's economic backbone. We need the SBDC Program to keep that critical element strong, healthy, free from deterioration and decline. It makes more sense to invest realistically in small business now through SBDC Program than to subsidize a postmortem on American business later.

The SBDC Program contributes indispensably to the Nation's economic well-being, international competitiveness, technological growth, and future progress through the varied, volatile, and vital small business community. With your help, the SBDC Program will continue to expand and improve.

Thank you for your support. And, thank you once more, Mr. Chairman and Members of the Committee for inviting me to present my views on this valuable program.

[The prepared statement of Dr. Schlafmann follows:]

Prepared Testimony of:

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Mr. Chairman, Senator Carl Levin (Michigan), Members of the Committee, thank you for your invitation to report on Michigan's excellent progress and unique experience with the Small Business Development Center (SBDC) Program implemented by the U.S. Small Business Administration.

I am privileged to testify one month into the third century since the September 17, 1787 signing of the Constitution at Philadelphia. Among the 39 signers of that durable document were several good friends of small business. One of them, an entrepreneur from Boston, started a small business in July 1730 and did rather well. This small business operator was Benjamin Franklin who wrote that "industry and patience are the surest means of plenty." Congress has shown patience with the SBDC Program; and through our industry in the program nationwide, we are demonstrating its rapidly growing value for the U.S. economy and improved international competitiveness.

The Michigan Small Business Development Center (MI-SBDC) benefits greatly from the strong interest and bipartisan support given by the Michigan Congressional Delegation. In particular, I am most grateful for the personal interest and support Senator Levin has given to this program. He has taken time from his busy schedule to visit the MI-SBDC headquarters, and has instructed his staff to provide assistance whenever appropriate.

Both Senator Levin and Representative William Broomfield, senior Michigan Members on the Senate and House Small Business Committees, regularly send staff representatives to participate in our annual Leadership Retreat for SBDC Directors. Representatives John Conyers, Jr. and Frederick Upton joined the House Small Business Committee this year and have already lent support to the program. Michigan small businesses have good reason to be grateful for the small business commitment of the Michigan Congressional Delegation and for the diligent efforts of this Committee. I express appreciation on their behalf for the continuation of vital support activities such as the SBDC Program.

I will begin my testimony by describing the Michigan SBDC program to broaden your awareness of the diversity of the various state programs, and to provide you with an example of a successful SBDC program. I will

then address some of the concerns I have about the program, and will offer some recommendations, as you have requested.

A MAJOR SUCCESS STORY

The Michigan SBDC Program, since it began in the Fall of 1983, has grown substantially in the number of centers, the scope of the services provided, the number of small business clients, and the positive results. Now approaching its fifth year of operations, the MI-SBDC today is an important component in the economic development infrastructure of Michigan. The record confirms that during the past four years the MI-SBDC effectively leveraged federal funds in productive partnerships with state and local governments, the private sector, and universities and colleges. Michigan small businesses are direct beneficiaries of these partnerships. Through these partnerships, the small business community receives expert assistance that would not be available without the MI-SBDC.

The MI-SBDC Network increased from 8 initial centers, located mainly at colleges and universities, with about 16 full-time equated employees, to 26 centers this past year with almost 90 full-time equated employees. A further expansion to 36 centers is planned for the current year (FY 1988).

Other numbers that indicate considerable development in a short period concern the volume of training programs offered and the clients served by these programs and in small business counseling sessions. You need to understand that our fiscal year just ended on September 29 for 1987, so many of the figures I will be giving you are estimates based upon counts through the third quarter from which we have extrapolated full year totals.

- **Clients Counseled:** Nearly 400 clients received SBDC counseling in the first year. More than 4,500 small business owners/operators received about 15,000 hours of one-to-one counseling this past year by professional small business counselors or private sector consultants whose services are contributed or paid for through the SBDC Program.

The four year cumulative totals for the MI-SBDC will approximate 34,500 counseling hours for 8,100 small business clients.

- **Training Programs:** The first year, 88 training programs including workshops, seminars, and conferences, attracted close to 2,500 participants. In FY 1987, approximately 500 training programs and special instructional events served 12,000 participants.

The four year cumulative totals for the MI-SBDC will approximate 1,485 training programs, 7,900 training hours, and 41,000 attendees. These training programs are highly diverse and broad in scope ranging from sessions on "How to Start a Business" to "How to Purchase a Business by Employees."

The MI-SBDC Subcenters throughout Michigan are busy providing small business information for entrepreneurs starting up or simply interested in

learning what is involved to organize and run a small business. For example, an estimated 20,000 contacts were made by entrepreneurs requesting information and small business counseling by the MI-SBDC Network last year. The counseling needs are often imperative and the questions asked are often urgent. At many Michigan locations, the SBDC Subcenter is the only easily accessible, reliable source of small business assistance and information available.

Further noteworthy aspects of MI-SBDC growth are evident from the first year to the present in the numbers of private consultants and private sector volunteers participating in the program. Few participated at the start of the program. Now all the MI-SBDC Subcenters possess or expect to have well-developed lists of private consultants available. For example, the Wayne State University SBDC utilizes over 45 private consultants on a regular basis. Today many MI-SBDC Subcenters rely on skilled private sector volunteers to meet the wide variety of small business needs more effectively and fully.

Successful Leveraging of MI-SBDC Federal Funds

The original MI-SBDC budget was \$400,000 in FY 1984. That year, the federal government award was \$200,000 which served to leverage an additional \$100,000 from the participating colleges and universities supporting the 8 initial centers, and also a \$100,000 grant from the Hudson-Webber Foundation. Thus, right from the start federal money was a potent catalyst in leveraging additional resources from the private and public sectors as intended by the SBDC Program legislation.

The budget for FY 1988 includes \$2,037,500 from the Small Business Administration, \$1,000,000 from the State of Michigan, \$750,000 from the academic sector, \$485,000 from the private sector, and \$600,000 from local governmental agencies. This budget of nearly \$4.9 million convincingly shows the effective leveraging of both current and preceding federal awards.

In addition to these budgeted funds, the MI-SBDC Program is affiliated with other small business assistance programs chiefly supported by the State of Michigan, which increase the amount of leveraged funds by an additional \$2 million. These amounts are not reported as part of the total MI-SBDC grant because of SBA application procedures and operating policies.

Supplementary MI-SBDC support funds derived from many sources are convincing proof that the federal investment in the SBDC Program inspires broad involvement at state and local levels as well as paying considerable dividends in the form of improved and strengthened American small business.

Positive Small Business Client Assessment of MI-SBDC

The MI-SBDC Administrative Office conducts annual evaluations to assess client satisfaction and determine attitudes toward services received. Last year, 1,470 clients who received two or more hours of counseling were sent the OMB approved Counseling Evaluation Form 1419. A total of 524 (36%) responded. Findings include:

- 82% acknowledged receiving prompt SBDC attention.
- Over 75% said they would advise other small business people to contact the SBDC.
- 74% rated the consulting services good to excellent. For those clients who received more than eleven hours of counseling (long-term) the approval rate jumped to 87%.
- 67% affirmed that the SBDC was effectively responsive in meeting specific small business needs (77% for long term counseling clients).
- 54% (64% long term) said the SBDC counselors pointed out other problem areas as well and helped the small businesses solve these problems.

An encouraging level of client satisfaction is regularly documented in the annual evaluation process. Steadily improving client satisfaction by meeting specific small business needs promptly and comprehensively is a constant objective throughout the MI-SBDC. Subcenter Directors find that counseling evaluation survey results give them valuable feedback to help improve the quality of SBDC services and to pinpoint the special services particularly critical in meeting the needs of Michigan small businesses.

The MI-SBDC State Director uses annual evaluation results in reaching overall management and quality control decisions for the Network. The evaluation results are submitted as well to the U.S. Small Business Administration, the U.S. Congress, and State of Michigan officials to help them gauge the value and progress of the MI-SBDC Program.

Training workshops, seminars, and conferences are also evaluated regularly to learn participant reactions and identify practical ways these activities can be made better. Positive survey reports from these endeavors as well as persistently greater numbers of attendees confirm that efforts to make training programs effective are working well.

Incidentally, these positive results do not simply occur by happenstance. We work hard in Michigan to provide quality programs and services. We will support only those Subcenters which have proven professional counselors and trainers as members of their organizations. Together with the Michigan Department of Commerce, we offer a series of staff development workshops each year. And, we are currently planning a Certification Program by which to upgrade and certify the knowledge base and skills of our Subcenter directors and staffs.

Impact of MI-SBDC Program

Program growth and client approval are key criteria attesting to the success of the MI-SBDC during the past four years, but equally important factors are the results of the program -- the impact the program is having on local and state economies, the number of jobs created, the number of businesses that were started or kept going. In these and related areas, the Michigan SBDC can join various other state programs across the nation in pointing with pride to a large and growing number of small business success stories.

Sometimes individual SBDC results seem undramatic, because a specific success may involve the creation of only one or two jobs. When cumulatively considered, however, these jobs are immensely important to their local communities and to the State. The significantly large and expanding number of new jobs produced with the support of the MI-SBDC contrasts with the contracting work force in the Midwest Region of large industries such as automobile manufacturing. The fact that the SBDC Program adds steadily to, rather than subtracts from the job total is a strong argument for the merit and continuation of this valuable program.

Through the third quarter of FY 1987, the MI-SBDC Network and its MDOC partner reported the following cumulative results:

- 2,158 jobs created in Michigan through SBDC involvement.
- 3,421 jobs retained in Michigan through SBDC assistance.
- 583 small business startups facilitated with SBDC participation.

Another category of substantial progress involves the Small Business Innovation Research (SBIR) Program. With greater and accelerated technological innovation as an indispensable ingredient of successful international competition today, small business innovation is now recognized as perhaps our greatest potential economic asset. To achieve more in the SBIR Program and to stimulate small business technological innovation, the MI-SBDC established a subcenter at MERRA which assists Michigan small businesses in taking advantage of research and development opportunities offered by the SBIR Program as well as other government and private sector R&D funding sources. With MERRA's assistance, Michigan's success in the SBIR Program grew from \$700,000 in 1983 awards to over \$6 million in awards last year.

Research and development of products ranging from medical services to equipment for use in space resulted from these awards. This program is one among several unique features of the Michigan Program.

MI-SBDC Small Business Triumph

Most SBDCs in Michigan report new success stories each quarter. Three recent examples include the following:

- **Tri-County Medical Billing, Pontiac, Michigan:** This service company provides computerized billing for doctors. The company was at the point of closing due to lack of sales. The Pontiac SBDC provided counseling, developed an image package, and helped the company revamp its marketing plan. Tri-County's sales increased, and the owner is now seeking additional funding through the local revolving loan fund to expand an increasingly successful business.
- **American Woodcraft, Union City, Michigan:** This manufacturer of airline ticket counters and retail shop counters has been in business 30 years, employs 140, and achieves \$5 million in annual sales. The company contacted the Small Business Center for knowledgeable help

with expansion plans. The SBC worked together with private sector and community consultants, banks, and the company to develop a financial package and to prepare an application for a Small Cities Community Block Grant. The company, as a result, has secured funding totaling \$500,000 (a \$250,000 grant and \$250,000 in private dollars) and it expects to hire 50 additional employees over the next two years.

- **The Bride's Closet, Royal Oak, Michigan:** This retail shop sells or rents recycled wedding gowns and formals. Ms. Reid of the organization contacted the SBDC in 1985 for assistance with her idea to sell such items. The SBDC helped her develop a business plan and budget and locate a prime business site. The shop opened in February 1987 following extensive planning and support provided by the SBDC. Ms. Reid pays tribute to the Wayne State University SBDC for her accomplishment in starting a business.

These are representative examples from among many available throughout Michigan in which SBDCs played key roles in seeing to it that small businesses successfully stayed alive, expanded, and started. The impact on Michigan communities of the MI-SBDC Program is also significant in other ways including training programs and authoritative guidance. Would-be entrepreneurs sometimes have ideas that are somewhat bigger than their immediate capacities. After consultation with SBDC counselors, such expectant small business owners often decide to postpone going into business until they can meet the business plan, market research, personal commitment, and financial investment requirements of business ownership. With SBDC expertise to point out danger points and causes of failure, such individuals are protected against losing their life savings by preparing properly for the responsibility of starting a business.

The MI-SBDC training programs are enriching the State of Michigan and the United States with trained entrepreneurs who are prepared for the complex modern challenges of business ownership and management. A representative experience in Michigan is that of Mildred Green, President of A.D.S., Inc. (Accounting Date Systems). Mildred Green participated in an SBDC financial analysis training program, entitled "Free the Enterprise." She reported, "Since...applying the concepts learned, A.D.S. was able to save more than \$10,000 the first month."

Such benefits are increasing at an accelerated pace as the MI-SBDC Program becomes better known in Michigan communities and the availability of SBDC services is more widely appreciated among small businesses. One key result of enhanced SBDC community recognition is greater success in advertising and coordinating the many valuable resources available to small businesses. The Small Business Development Centers help entrepreneurs shorten the time needed to find qualified assistance. The Centers make it easier and more attractive for communities to support entrepreneurs and assist businesses in relocating.

All the elements that make up and demonstrate the growing success of the Michigan SBDC Program are having a strong impact on the Michigan economy. The SBDC Program, after a slow beginning, is now working superbly in

Michigan as it is in many other states. The direct result for the present and the future is that the MI-SBDC Program is an influential contributor to the Michigan economy through SBDC services for the Michigan small business community and vital to the essential diversification of the state economy. If a valid current maxim is "diversify or perish," the MI-SBDC Program is clearly a major success in helping Michigan choose the preferable route of economic diversification.

UNIQUE ASPECTS OF THE MI-SBDC PROGRAM

The Michigan Small Business Development Center Program differs from other state programs in several important respects worthy of the Committee's attention. The MI-SBDC is unique in terms of organizational complexity, program facets, and participating partners.

Organizationally, the Michigan SBDC is among the nation's largest. Although the MI-SBDC is centrally headquartered at Wayne State University in Detroit, with its partners, the Network offers a particularly complex, diversified, and comprehensive array of SBDC programs and services.

The unique aspects of the MI-SBDC are possible because the SBDC Program was created by Congress with the wisdom and foresight to accommodate flexibility among the state centers, and to let each state determine and serve the special needs of its own small business community. Geographic, population, climatic, and resource factors differ widely among the states resulting in variable small business needs that each state can meet with maximum effectiveness only if each is free to base its SBDC Program on specific local requirements. Such flexibility enables each state to avoid duplicating existing state programs in its SBDC Program and to design program activities for existing rather than hypothetical small businesses.

MI-SBDC Program Description

Although established as a traditional academic-based program in its development during the past four years, the MI-SBDC Network expanded to include many organizations as partners in the delivery system. The 26 currently funded SBDC Subcenters are located as follows:

- 5 at publicly supported four-year colleges and universities
- 4 at publicly supported community (two-year) colleges
- 1 at a major private college
- 2 at university and business consortiums
- 4 at local Chambers of Commerce
- 10 at various local economic development organizations or growth corporations, created for the most part by joint planning and support under the Michigan Community Growth Alliance (CGA) Program

Ten new full service centers and satellites planned by the MI-SBDC for activation in FY 1988 will be located as follows:

- 1 at a publicly supported four-year college
- 7 at publicly supported community colleges
- 1 at a private college
- 1 at a major metropolitan chamber of commerce

There are 14 additional centers, established by the Michigan Department of Commerce (MDOC), which are affiliated with, though not funded by the MI-SBDC through a signed Memorandum of Understanding between both organizations.

The resulting total will be 50 MI-SBDC and MDOC sponsored small business assistance centers and satellites.

Michigan is one of several states to commit major resources for the assistance and support of small business. Many programs have recently been established at the MDOC with the support and direction of the Governor and the Michigan Legislature. The majority of the small business assistance programs are part of the MDOC Community Growth Alliance Program. Local communities qualify as CGAs by forming consortiums of service and resource providers within defined geographic areas. They certify in writing that these consortiums include representatives from the local two and four year colleges, local chambers of commerce, local county and community governments, local banks and financial institutions, local businesses, local labor, and appropriate planning commissions and private industry councils in the area of each CGA.

In keeping with the intent of the national SBDC Program, the MI-SBDC zealously strives to avoid duplication of, and competition between the state and federal programs. A Memorandum of Understanding is executed annually by MI-SBDC and MDOC representatives to promote cooperation and cosponsorship of programs. A further objective of our cooperative efforts is to prevent confusion among the small business users of MI-SBDC and MDOC services. Under this cooperative arrangement, the following programs, although not financially supported by the MI-SBDC, are programmatically linked to the MI-SBDC. The program offices, in fact, are often physically located within or adjacent to the local SBDC Subcenters. Referrals are routinely made between these offices.

- **Local Procurement Offices:** The 22 LPOs in Michigan help small business owners take advantage of federal, state, and local government procurement opportunities. Small Business owners receive training and counseling to make them more successful in securing government contracts for goods and services.
- **Area Development Offices:** The 38 Michigan ADOs serve as regional economic development centers emphasizing business creation, expansion, and retention to create and hold jobs. The ADOs encourage local initiatives to assist, maintain, and attract small businesses.

- **Technology Transfer Network Centers:** Five TTN Centers in Michigan connect the knowledge, expertise, and facilities of five Michigan research universities with state and local business assistance programs. By taking advantage of vast university resources through the TTN Centers, Michigan small businesses can get the technical support and problem diagnosis help they need to stay competitive.
- **Incubator Programs:** Michigan has 18 small business incubators that provide space and support services enabling fledgling organizations to develop sufficiently for independent existence. Some of the incubator programs also feature in-house counseling and training activities for small businesses which are typically provided by local SBDC Subcenters.

Five specialty centers exist as Subcenters within the Michigan SBDC Network, and the functions of these Centers add to the exceptional nature of the MI-SBDC. Each specialty center, focusing on its particular area of expertise, provides technical assistance to MI-SBDC and MDOC Subcenters and to individual small business owners throughout Michigan. The MI-SBDC Specialty Centers include:

- **Research and Development:** The MERRA SBDC specializes in assisting small businesses obtain Small Business Innovation Research (SBIR) grants.
- **Tourism Industry Development:** Michigan Tourism United SBDC develops special counseling and training programs for the small businesses involved in tourism and recreation.
- **Dormant Technology Transfer:** Unused technologies developed often by the larger industries are researched and evaluated for possible transfer to existing or start-up small businesses for commercial marketing purposes by Saginaw Valley State College SBDC.
- **Inventions Evaluations:** Inventors Council of Michigan SBDC provides technical assistance in product evaluation and marketability for inventors and innovators.
- **International Trade:** A program designed by the Greater Detroit Chamber of Commerce SBDC to increase the abilities of small businesses to more effectively compete in export trade.

MI-SBDC Special Emphasis Programs

Among the unique features of the MI-SBDC are the numerous special emphasis programs for women, minorities, veterans, and special interest groups.

- **Woman Business Owner Programs:** The growing interest of women in business ownership is shown by the high percentage of women receiving MI-SBDC counseling (45%) and participating in training programs (30%). Several MI-SBDC Subcenters, as a result, provide specialized programming for women entrepreneurs. Highlights of these activities include a major conference for women business owners with 575

attending. Two pilot programs for women focused on financial issues and leadership development. These will serve as the basis for a series of statewide conferences in FY 1988. Other MI-SBDC activities emphasize helping women develop essential business skills.

- **Minority Programs:** Several MI-SBDC projects stress minority ownership of small businesses by giving minorities counseling and training programs especially designed for their needs. Several Subcenters participate each October in Minority Business Month with special activities. The MI-SBDC Administrative Office cosponsored a one-day conference last week with the Detroit SBA Office and a local minority organization. The MI-SBDC has submitted a proposal to the Office of Minority Small Business and Capital Ownership Development outlining a program for indepth onsite counseling to minority business owners, with the main objective of helping business owners identify problems and implement solutions.

The number of minorities receiving SBDC counseling has increased to 16% of the total. That percentage will increase in FY 1988 with the establishment of satellite programs having primary responsibilities for minority businesses, and the establishment of a Native American Indian program.

- **Veteran Programs:** Comparable emphasis is given by the MI-SBDC to assist veterans in becoming, and in succeeding as business owners. In 1986 a veterans' conference was cosponsored by three subcenters for the fourth successive year, and next month the MI-SBDC will serve as the primary sponsor of the fifth such conference.

The number of veterans receiving SBDC counseling has increased to 20% of the total.

- **Special Interest Programs:** Agribusiness programs such as the award-winning Saginaw Conference for Farmers and the Northwestern Michigan College Conference offering long-term training for the cherry industry are representative of the MI-SBDC commitment to serve the small business needs of many different groups with special emphases and diverse interests. The MI-SBDC programs for the handicapped are also extensive, productive, and valued activities broadening the Michigan potential for entrepreneurship and small business ownership. A two-day conference will be held next week to advise and assist handicapped entrepreneurs with procurement opportunities.

The size, complexity, and organizational design of the MI-SBDC make it a unique program with an exceptional number of services and cooperative activities in conjunction with the Michigan Department of Commerce, local governments, and the private sector. The scope of the MI-SBDC provides an important base in Michigan for uniting small business service agencies and other organizations in the common effort to expand and diversify the Michigan economy.

Many small business programs and services supplied through the MI-SBDC Network could not be provided without the effective leveraging of state and

local funds with federal dollars accomplished by the Michigan Small Business Development Center. Through the MI-SBDC Program, nonfederal sources contribute \$3 for every \$2 received from the federal government. If all affiliated programs are included in the tabulation, the actual ratio is almost \$5 from nonfederal sources for every \$2 from the federal program of the Small Business Administration.

MI-SBDC POSITIVE WORKING RELATIONSHIPS

A particularly beneficial aspect of the Michigan SBDC Program is the effective and positive working relationship established with its federal, state, and local partners. The emphasis on cooperation and efficiency among these partners ultimately provides our small business clients with more, better, and faster service.

Support from the District and Regional SBA Offices

Some of the SBDC Programs in other states unfortunately do not share the Michigan experience in this connection. The MI-SBDC enjoys a cordial, supportive, and productive relationship with the District SBA Director and the Business Development Staff. The leadership of Raymond Harshman, District Director, greatly assisted the MI-SBDC Program in becoming the success it is today. Consultation with Allen Cook, Project Officer, has made invaluable contributions to the progress and effectiveness of the MI-SBDC.

All major program decisions are routinely cleared with the District SBA Office, and we seldom disagree about program development and delivery. The two offices cosponsor several major small business conferences. They act as a mutual referral system. The District Office provides support materials for MI-SBDC use. The SBA at our District level also offers enormous support and assistance during the tedious annual reapplication process.

Similarly positive working relations exist between the MI-SBDC and the Region V office in Chicago. James Thomson, Regional Administrator, and Leslie Brozman, Regional Assistant Administrator for Business Development Programs, have strongly supported the MI-SBDC and have always been accessible when needed.

Supportive Relationships with National SBDC Program Managers

Our relationships with the former Deputy Associate Administrator for the national SBDC Program, Johnnie Albertson, were always excellent, as they currently are with Judith Dunn, Program Manager within the national SBDC headquarters.

For smooth, unhindered, and efficient SBDC operations, I consider it important for SBA program leaders to understand the value and importance of the entire SBDC Program and the special significance of complex undertakings such as the SBDC effort in Michigan. A key aspect of such understanding is recognizing the necessity of flexible programming at local levels and granting all contributing partners equal voice and input to make the program successful.

Symbiotic Partnership with the Michigan Department of Commerce

Our relationship with program leaders at the Michigan Department of Commerce is healthy and productive, with good results for the State's small business community. The MI-SBDC and MDOC cosponsor major conferences such as the annual Women Business Owners and Michigan R&D Conferences. We cooperate in providing mutual support and quality control for our Subcenters. Together we discuss and formulate professional development programs such as our combined effort to establish a Certification Program for center directors to upgrade and maintain high standards of management leadership. The MI-SBDC and MDOC share responsibilities for management information systems and records, counseling and training evaluations, program assessments, and local resource development.

The successful partnership arrangement between the MI-SBDC and MDOC beautifully illustrates how federal and state resources can be combined to achieve excellent results that surpass what their separate and uncoordinated efforts would achieve. The partnership replaces state versus federal competitiveness and program duplication with efficiency and balance. I commend our partnership experience to other SBDC Programs for their consideration and potential benefit.

Strong Ties with Local Organizations Enrich the MI-SBDC

Through its 36 Subcenters the MI-SBDC is integrally linked with local organizations and depends on robust local connections. Nearly half of the Subcenters will function at local community growth organizations and chambers of commerce, and 11 will operate within community colleges which are known to have close ties and affiliations with their communities. Amiable relations between the state SCORE and MI-SBDC leaders make it possible to translate that cooperative spirit among the 36 MI-SBDC Subcenters and 23 SCORE chapters. The Michigan experience proves that such relationships are immensely important and effective. They bring the SBDC Program closer to its ultimate users, expand the program's influence and effective outreach, reduce wasteful duplication, and accelerate gaining the confidence of local clients.

The MI-SBDC has not been immune to problems in its state and local relationships. Personality difficulties sometimes get in the way and divert energies from mutual goals. Fortunately, such problems have been infrequent and reconcilable.

I should emphasize that positive working relationships do not simply happen by chance and good fortune in Michigan. We have to work at establishing and maintaining these relationships by assigning many hours, resources, and energies to the challenge. The evidence is unmistakable that all efforts to build bridges among federal, state, and local partners pay off generously in efficiency, smooth performance of tasks, and fine results. Such bridge building endeavors in Michigan are facilitated by the mutual recognition on the part of federal, state, and local participants in small business programs that they share the same goal. The common desire to assist Michigan small businesses with maximum competence in every way possible seems to eradicate barriers and give us a key to success.

One facet of the partnership concept that demands steady attention by all participants is the necessity of giving partners an equal say in the development and implementation of programs. Problems arise, as in George Orwell's Animal Farm, when some partners want to be more equal than others. In Michigan we find that mutual respect and equality among those striving to support and expand small business work best.

PROBLEMS AND CONCERNS WITH THE SBDC PROGRAM

After summarizing the many positive and successful aspects of the SBDC experience in Michigan, I should also acknowledge problems and concerns from the Michigan perspective. The Michigan Small Business Development Center Program is succeeding and progressing well because as the state director, I receive the full support and assistance of SBA District and Regional officials. They allow the MI-SBDC to establish a program that is responsive to unique Michigan characteristics and the diversity of local Michigan communities. Before the existence of the MI-SBDC with its partnership arrangements and interconnections among federal, state, and local groups, I might have designed a considerably different program if asked to stress management efficiency and accountability. With such concerns foremost, I would probably have recommended a program with a firm chain of command and subcenter directors entirely accountable to the state director, fewer subcenters to keep the Network manageable, and all funds contributed by the participating partners being distributed through the MI-SBDC Administrative Office so the state director would have total power over the program.

In the pursuit of theoretical organization and control in a firmly regulated organization, any management specialist might have advocated a program that in no way resembles the existing Michigan program. And the specialists would be wrong, because the Michigan SBDC Program shrugs aside such concerns and works splendidly, if somewhat freely from a puristic management viewpoint.

The MI-SBDC works exceptionally well because local communities decide where SBDC subcenters should be located and who should manage them. This approach works because it helps communities help themselves, and as a result, many more communities in Michigan than were originally anticipated organized action groups and committed substantial local resources to support SBDC subcenters. Their motive was not altruistic. They needed SBDC services and considered their local subcenters community responsibilities as well as community possessions. The MI-SBDC Program works because the state and all major contributing parties are treated as equal partners. They are not required to turn over their contributions to a federal agency in order to participate, and they retain the right to indicate how their resources should be spent for optimum results in the light of local needs and conditions.

The Michigan approach works, and the fact that it does raises a major concern with the way the SBDC Program is administered nationally. The central SBA administration tends to view the SBDC Program as its exclusive possession and to promote uniformity among state programs as a means of making oversight and control easier. As a professor or organizational theory and management, I understand and sympathize with the central SBA attitude. My front line experience at the MI-SBDC, however, makes clear that the real value of the SBDC Program will be strangled in its tracks if federal dollars are devoted to standard bureaucratic practices that may or may not respond to local needs and environments.

Related to this concern is the central SBA administration's disregard for the equal partnership concept inherent in the SBDC legislation. Most state SBDC Programs greatly exceed the minimum local match requirements as Congress anticipated. Yet these local funds are viewed as federal property subject to federal control under the proposed operating policies and procedures.

I have complained to national SBA officials that their policies discourage state SBDC Programs from reporting all the resources which are leveraged by the federal funds. Most of us are leveling off or slowly reducing the amount of local match funds we include in our federal applications. For example, I applied for a supplemental grant in my first year as MI-SBDC State Director. Even though Michigan overmatched nearly \$3 nonfederal to \$1 federal, I was not allowed to claim the overmatch as a match against additional federal dollars. Such situations mean that in future applications there is no reason or incentive to report all of the local match contributions. In fact, these policies serve as disincentives.

Another reason to report only the match that is minimally required is because the funds when they are reported become eligible for audit by the SBA Auditor General. Why should state and local organizations let their big federal brother audit them when they contribute more to the program than he does?

This problem is important because it is symptomatic of many problems that exist because the SBA does not view the states as equal partners in the SBDC Program. In connection with the local match situation, I should like to inform Senator Levin and other Members of the Michigan Congressional Delegation how much this federal program has leveraged back home in Michigan. They would be impressed, and the information could be quite dramatic nationwide. However, publicizing the true local match situation would not be in the best interests of the other contributing partners for the reasons given.

The SBDC Proliferation of Paper

Another of my concerns is the enormous volume of paperwork required for reporting purposes, record keeping, documentation of program effectiveness and value, program assessments, self studies, impact studies, audits, certification reviews, annual reapplications, etc. The list is long, and the paperwork for a program the size of Michigan's is mountainous. I have

determined that 2-3 months of administrative staff time are required each year to reapply for continuation funding and to close out the books for the previous year. Another 1-2 months are consumed with the preparation of quarterly and annual reports and the maintenance, confirmation, and auditing of records. During alternate years we are required by law to conduct major self-evaluations which devour another 1-2 months of valuable administrative time.

This situation reminds me of the farmer whose worry about the seed he planted caused him to dig it up a few times just to check on its progress. When a tiny shoot surfaced, he pulled it up again to see if the roots were healthy. When it grew a little, he lopped off branches to avoid exhausting the roots. Then he pulled it up again to learn why it appeared so sickly and puny. He finally pulled it up to discover what made the plant die. Monitoring progress is essential, but it can occur too often and with too heavy a hand.

The Problem of Unenthusiastic SBA Recognition

I am also concerned by the impression given that the central SBA administration is reluctant to acknowledge and support the SBDC Program publicly. There is even the appearance that some in the SBA would like to do away with the program, despite the fact that the SBDCs last year vigorously advocated keeping the SBA an independent agency when the Administration sought its removal.

Recently no mention was made of the SBDC Program in the handsome 1987 publication, A Tribute to Small Business: America's Growth Industry. Slight mention was made of the program in the SBA's Annual Report, Fiscal Year 1986. Although the SBDC is the SBA's largest business assistance delivery program, the SBA 1986 Annual Report said only: "The Agency's business development officers have become true resource managers, blending the skills of 12,000 Service Corps of Retired Executives (SCORE) volunteers, 520 Small Business Institutes, 49 Small Business Development Centers, many of the 2,700 local Chambers of Commerce and other business development resource groups." (page 12)

This statement is a subtle downplaying of the SBDC Program and illustrative of what seems a calculated effort to undercut it. The statement does not explain to readers that while all SCORE volunteers, SBIs, and Chambers of Commerce are counted, the SBDC Program is reduced to the number of states with SBDC activities. The full scope of SBDC activities nationwide is not mentioned. If the total number of SBDC Subcenters, sponsors, supporting institutions, professional counselors, and volunteers had been stated, the figure would overwhelmingly exceed all the other mentioned SBA programs combined. I am greatly concerned about the attitude of the central SBA staff toward the SBDC Program as indicated by such statements that tend to denigrate the true significance and full importance of the SBDC Program in Michigan and other states.

I also admit that the Association of Small Business Development Centers is not blameless. Too much of our collective energies and resources in the SBDC Program now go to cope with or overcome bureaucratic obstacles and to

improve working conditions. Our efforts should be concentrated on program development and services for the small business community. When such concentration is not possible, the situation is not healthy for the SBDC Program and there are no winners.

Fortunately, the need for the SBDC Program is so pronounced at local levels and in the participating states, we sometimes receive high levels of patience and tolerance as we strive to create multifaceted SBDC Programs in harmony with existing small business neighborhood requirements. The patience of small business clients is not limitless, however, and the national SBDC Program should expeditiously address the foregoing concerns.

RECOMMENDATIONS FOR IMPROVEMENT OF THE SBDC PROGRAM

The following recommendations grow out of the Michigan experience and the concerns described above:

1. Extend reapplication for continuation funding from a one-year to a three-year cycle.
2. Change the legislation to lengthen the time between comprehensive self studies from two to five years.
3. Rewrite the proposed regulations to require no more management rules than those currently existing in OMB approved circulars. The regulations should be rewritten with the full participation of representatives from the SBDC Program and SBA field staff.
4. Make program decisions, if not the responsibility for negotiating the grants themselves, more decentralized. The central SBA office staff should act upon the recommendations of SBA District and Regional Offices. A built-in appeals process for conflict resolution is needed.
5. Make certain the SBDCs are among the first to be notified by the SBA when other technical assistance funding opportunities are established, such as minority assistance and international trade programs. Currently the SBA avoids sharing such vital information with the SBDCs.
6. Strengthen and enforce the partnership concept as exemplified by the cooperative agreement. Give all major contributing partners equal say in the design and operation of the SBDC Program.
7. Confirm Congressional support of the program by passing reauthorization legislation in 1989 and increasing the current funding cap. What land grant legislation accomplished for farmers in the 19th century, the SBDC Program can help accomplish for small businesses today, with the national economy conspicuously benefiting in the process. Comparisons of the U.S. and Japanese economies are common at present. We should note that the Japanese government demonstrates a strong commitment to its small business sector with direct entrepreneurial support. The SBDC Program can be an equally strong American response.

8. Implement the 60 recommendations proposed by the 1986 White House Conference on Small Business through prompt and direct Congressional effort.

CONCLUSION

Mr. Chairman and Members of the United States Senate Committee on Small Business, thank you for the opportunity you have given me to express my views on this important small business program, which I think has proved and continues to prove its great value to small businesses and the national economy. I tried to state my concerns and recommendations frankly with the long-term best interests of the SBDC Program and the country as a whole in mind. I urge continued support of the SBDC Program, which I consider an excellent example of federal partnership with state and local groups.

This partnership approach is working well in Michigan, and our experience makes me optimistic about the future of the SBDC Program nationwide and quite certain that the U.S. small business community is in no mood for a visit by Samuel Mickle. The famous entrepreneur I quoted earlier, Benjamin Franklin, wrote about a stranger named Samuel Mickle stopping at his door. He "asked me if I was the young man who had lately opened a new printing house: being answer'd in the affirmative; he said he was sorry for me, because it was an expensive undertaking and the expense would be lost; for Philadelphia was a sinking place...and he gave me such a detail of misfortunes, now existing or that were soon to exist, that he left me half-melancholy." Franklin ignored Mickle and went about his business with well-known results.

The SBDC Program will help Michigan and other states avoid visits by Samuel Mickle. We are neither melancholy nor sinking, and the vitality of our small businesses is an essential factor in maintaining and improving our economic health. Keeping and strengthening the SBDC Program are useful ways to help small businesses continue flourishing in the United States. Your continued interest and support of the national SBDC Program are vital and appreciated.

GOVERNOR BLANCHARD LETTER OF SUPPORT

I have attached a copy of the September 16, 1987 letter which Michigan Governor James J. Blanchard wrote you, Mr. Chairman, in support of the SBDC Program and concerning his objection to the proposed SBA regulations for the operation of the SBDC Program. I include it as a part of my testimony to demonstrate the highest level of commitment to, and concern for this valuable program by one of our leading partners in the MI-SBDC Program.



STATE OF MICHIGAN
OFFICE OF THE GOVERNOR
LANSING

JAMES J. BLANCHARD
GOVERNOR

September 16, 1987

The Honorable Dale Bumpers
Chairman
Committee on Small Business
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Thank you for holding an oversight hearing on the Small Business Development Center (SBDC) program. I hope it will provide valuable insight into the program's management and activities.

I am proud to have had the opportunity to vote for the establishment of the SBDC program as a congressman, and to have endorsed the establishment of the Michigan SBDC as Governor. The Michigan SBDC program is proving to be an indispensable economic development tool as we attempt to diversify our economic base and to improve the competitiveness of our small business community. Although the core activity of the program remains the counseling and training of small business owners, the MI-SBDC is involved in an array of other activities which I believe are in the best interest of our small business owners.

Through its specialty centers, for example, the MI-SBDC provides assistance unique to Michigan's tourism industry, export trade, and to small business innovators and inventors. Assistance with innovative research through an SBIR specialty center and the transfer of dormant technology from major corporations to small businesses are among the other contributions the MI-SBDC makes.

Of special note is the relationship which exists between the MI-SBDC program and the Michigan Department of Commerce small business assistance programs. We have leveraged resources from both state and federal governmental agencies and from many local organizations to significantly broaden our outreach to the small business community, and to provide special programs for minorities, women, veterans, and special programs for procurement assistance, as well as incubator and area development support.

The Honorable Dale Bumpers
September 16, 1987
Page Two

The MI-SBDC has an excellent relationship with the Small Business Administration's (SBA) district office in Detroit, under the effective leadership of Raymond Marshman, and Michigan's small business owners appear to think very highly of the MI-SBDC.

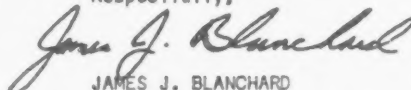
The SBDC program is relatively unique among federal programs, and certainly among SBA programs, in that the relationship between the applicant, who provides 50 percent or more of the funding, and the federal government is set forth in a cooperative agreement. The State of Michigan and the lead SBDC institution, Wayne State University, are thus equal partners in the program. The relationship is not governed by a contract which places one contributing partner subject to another.

I am concerned that this basic, and most important principle, not be diluted by administrative action or edict from SBA's central office. I am especially concerned over the regulations which the SBA has proposed for the SBDC program. While I am well aware of the federal government's responsibility for managing this program, these regulations go beyond good management. They exceed government-wide circulars, and assume the state's contribution to the program automatically becomes a federal dollar under the control of the SBA. They impose uniform requirements upon all SBDCs and, thus, restrict creative response to individual state and community requirements.

The proposed regulations, in sum, usurp the congressional intent behind cooperative agreements and the partnership basis of the program. These regulations are neither in the best interest of the MI-SBDC nor of Michigan's small business community. I am asking Senator Riegle and Senator Levin to oppose their implementation.

Again, Mr. Chairman, I congratulate you for holding these oversight hearings on a program which is growing in importance and value to the Michigan economy. We look forward to working with you to strengthen the SBDC program and the partnership arrangement between all contributing parties so as to increase the program's ability to respond to the unique requirements of the small business community within each state.

Respectfully,



JAMES J. BLANCHARD
Governor

The CHAIRMAN. Thank you. Mr. Hale.

STATEMENT OF FRED O. HALE, STATE DIRECTOR, SMALL BUSINESS DEVELOPMENT CENTER OF MISSOURI, ST. LOUIS UNIVERSITY, ST. LOUIS, MO

Mr. HALE. Mr. Chairman, thank you. My name is Fred Hale. I am at present the State director of the Small Business Development Center Program.

The CHAIRMAN. How long have you been director?

Mr. HALE. Four years this past July, hired specifically to create and run this program.

The center in Missouri is slightly different, in that the host institution is a private school. It is a private university, a Jesuit school, the oldest one west of the Mississippi, by the way. But that is neither here nor there.

When I hired on, the program was in its first year, and there were four centers operating a total budget of \$400,000. This past year, just ended, I am happy to say, we have 18 centers functioning, total budget of \$5 million.

Of that total budget, the SBA provides \$1.39 million. We are at Federal cap with the SBA. We will have no additional funds from the SBA until maybe a reauthorization at some point in the future. SBA funds make up 28 percent of our program.

The local universities, our partners locally, contribute \$2 million to the program. The remainder comes from Federal programs we operate in conjunction with the Defense Logistics Agency, and the Department of Commerce.

In the State of Missouri, we have grown to the point where we are a reasonably sized small business in and of ourselves. We have about 100 full-time employees around the State.

Those 100 full-time employees last year provided counseling services to about 2,600 businesses, and we provided training to more than 10,000 businessmen and businesswomen throughout the State.

The real strength of our program, I think though, is not in numbers. I think it is in some of the specialized programs that we have put together. We have a technology development center that is set up to service Missouri businesses in attempting to take advantage of technology.

The goal of this center basically is to take a no-tech company and convert it into a low-tech company. And Missouri manufacturers, much as manufacturers throughout the Midwest, need that sort of direct help and application of technologies.

We have a technologies search center, which assists our businesses in Missouri to find the state-of-the-art, involving technologies that they have developed. And hopefully they can do that before they expend great deals of resources attempting to develop technology that someone else already has.

We run a SBIR high-tech center. This center assists Missouri businesses to participate in the SBIR Program federally. We do a procurement program, where we assist businesses in Missouri wishing to become vendors to both Federal, State, and local governments.

We have a procurement matching network, which is a computer-based program that matches the resources of Missouri businesses with solicitations from both the Federal, State, and local governments. A very, very successful program that we are very proud of.

We also, like Nebraska, have the Midwest Venture Capital Network, which is a computer-based program matching private investors and small businesses and entrepreneurs.

We run also a trade adjustment assistance center program, where we provide help and assistance to those manufacturers and processors who may have been damaged and hurt by imports.

These programs demonstrate what I think is probably the very basic strength of the SBDC Program in that Congress in its wisdom, when it started this program, allowed the individual States to assess the needs of the businesses in those States, and then create the programs to help those local businesses.

Another facet of our program that I am very, very pleased to report points to the very high level of quality service that we give our clients. That has to do with the cooperation and working relationship we have with the private sector.

Virtually all of our training is conducted by private sector consultants. In fact, in our counseling area, we rely heavily on private sector consultants. In St. Louis, Kansas City, and Springfield, we have marvelous support from the Big Eight accounting firms.

In fact, Pete Marwick in St. Louis and Kansas City commit several thousands of hours of staff time to work with our clients.

Of our 18 centers, by the way, the three that I have mentioned, Kansas City, St. Louis, and Springfield, are the only metropolitan centers.

The rest of our centers are located in smaller rural communities, and we enjoy in Missouri, in the Missouri SBDC, a very, very positive and front-running posture of rural developers, of a program that is set up to help the smaller rural businesses located in those smaller communities throughout the State.

The other element I am proud of with the program we have built is the professional competence of our own SBDC staff. We monitor them very carefully and survey them. A key element there is more than 60 percent of our counselors come from business.

I think there is a mistaken notion along the way that perhaps the SBDC Program is an academic program, and not really practical. In our case, I am happy to report that the bulk of our counselors are real live walking, talking businesspeople.

The Dean of our whole program is a person who took early retirement as board chairman of a small bank holding company in northwest Missouri, and is working full-time as an SBDC director, and is enjoying it, and brings an unbelievable wealth of information and experience to his small business clients.

One of the questions I was asked to address is, what is the impact of our program on the local economy. We, too, have done surveys. In our last survey, for those clients of the SBDC who had been counseled before the 2 year period that we surveyed, we show a 21 percent increase in sales, a 51 percent increase in profits, a 26 percent increase in employment.

During that same period, the employment in a typical Missouri farm went up about 4 percent. Now, I would love to sit here and

tell you all that we are responsible. I cannot do that. Logic will not let me.

But I can say that we have—our program, the SBDC, has in fact contributed. There is enough logic there that allows me to say with great confidence that we have helped, although I cannot say that we are the sole reason.

We have heard already some of the problems that have gone on with the Missouri program in relation to our SBA partners. Prior to addressing some of that, I would like to reference—and it is in my formal testimony—I would like to read a section from the P.L. 98-395. It says:

"The Small Business Development Center Program shall be under the general management and oversight of the administration, but with recognition that a partnership exists under this section between the administration and the applicant for the delivery of assistance to the small business community. Services shall be provided pursuant to a negotiated cooperative agreement, with full participation of both parties."

SBA's responsibility under this provision is to implement the statute using the cooperative agreement instrument as a flexible legal framework to achieve the objectives of the SBA statute.

There is also a Senate report that was associated with the SBDC Improvement Act of 1984, that indicated it was never the Congressional intent that all SBDC's would operate in the same way or place the same amount of emphasis on any one area of counseling or training.

An integral part of the legislation has always been the flexibility given to each center to tailor its assistance and service activities to the actual needs of the clients in the region.

Since 1979 the agency and the committees have witnessed tremendous growth among the SBDC's, reflecting the diversity of the various service areas in the States.

Having provided that general summary, I can now discuss the situation in Missouri. The situation in Missouri appears to me to be a potentially destructive element in the definition of partnership and the responsibilities of the two parties involved.

And if you will bear with me, in May of this past year, after a very exhaustive process that started in January, a process in which each of my centers in the State met with their respective SBA personnel, they created a plan for their community, for their center.

They brought that plan to a statewide planning conference in February, the end of February, to which all of our people and all the SBA interested parties, including the regional office, were invited. As a result of that meeting, a proposal was assembled by me and submitted to the SBA mid-March.

March 15, the SBA had in their hand a draft of our proposal. At that meeting in February, I am happy to reply that there was no dissenting voice from SBA regarding the proposal, the direction of the program, and what we were going to be attempting in the next year.

The period from mid-March until mid-April was given for comment on the proposal. There were no direct comments back from the SBA regarding that proposal.

In May, May 15, I submitted the formal proposal. Just prior to submitting that proposal, the SBA district office advised my boss that they would not sign our proposal, they would not endorse our proposal, until provisions were made therein for the termination of the State director.

This directive came directly from the regional office of the SBA. My boss, like me as he might, is still a reasonable person. He asked very promptly, please give us some reasons, tell us why; what is the problem?

The Dean requested supporting documentation from the SBA so that we could address it. What is it that we are not doing that we should be doing? No data was provided. In fact, the Dean made repeated trips in early June, the end of May and early June, to the Kansas City regional office seeking that information.

He was given nothing of substance, verbally or in writing.

I was a little astounded today to discover that we as SBDC people have been operating under as a policy manual in the testimony of Mr. Parrish is not an operating guide at all, but it is something else.

We brought about, the Dean basically, in mid-June formally, according to the policy, the conflict resolution policy, in mid-June formally wrote requesting that that policy be invoked and that we in fact still had a conflict. And at this point, any comment from the SBA, the only conflict that we had was the termination of the State director.

Today is the first time that we heard that there is an incomplete proposal in the hands of the SBA. I would relish the opportunity of seeing what is incomplete, because it is a very complete program. In fact, it is the most detailed, complete program that we have put together ever.

The Dean wrote the letter in mid-June invoking the conflict resolution policy. Had that been invoked, the issue would have moved to Washington on July 3. And had that policy continued to be invoked, there would have been a resolution of the issue by the middle of July.

With that resolution, our university, assuming the resolution had come back that, yes, indeed, the State director needs to be terminated, that would have given our university an opportunity to hopefully address those issues and find out really what was going on.

We heard nothing. The Dean heard nothing from the SBA, even though he had requested after that time period that the process be invoked and that the proposal move forward. We heard nothing until mid-September, when the SBA sent a review team, which again is contrary to what we thought was a solid operating procedure.

They sent a review team to St. Louis to determine an outcome or a resolution of the problem. They were in St. Louis for 3 days. During that period of time, I spent about 3½ hours with them, at which point there were no allegations made, there were no specific issues put on the table.

My boss, the Dean, spent about 2 hours with them, and he got again nothing specific, no allegations, nothing to which we could respond regarding the problem.

That review team left, came to Washington, and the Dean was summoned on the 24th of September, on a Thursday, to Kansas City. And he was given at that point a rather straightforward ultimatum. Bearing in mind, if you would, Senator, that our funding dies on September 29 in our program.

So this was 2 working days prior to us losing funding, and the Dean was given a very straightforward statement that the State director be terminated by Tuesday, the next Tuesday, or there would be no extension letter granted. With no extension letter, our university, as much as they support this program, would have been out of funding essentially.

And without the Federal funds in this program, without that seeding, most of my schools that participate in this program would probably have dropped the program, if not immediately, then very shortly thereafter, because it is the subcontract that they have with St. Louis University that allows them to establish their budgets and account numbers so that they can function.

The Dean was given basically an ultimatum that the State director be terminated or the program would not continue. That was confirmed with a slight variation on Friday in phone conversations with Mr. Parrish, and again on Monday with Mr. Parrish and Ms. Wolfe, that it would be modified and that the 90-day extension to the program would be given through December 31, if during that 90 days the SBDC director were terminated; and upon verification of that termination, the SBA would then set about reviewing the proposal for the funding for the rest of the year.

At this point, the only reasons the SBA has given us for the demand for the termination of the State director is that the State director is uncooperative and has had a personality conflict with the regional administrator of the SBA.

Needless to say, the administration officials at St. Louis U., a private institution, have not taken real kindly to this whole situation. They allowed it to happen and bowed because of the 100 jobs tied to this program statewide.

The problem is extremely discouraging to the morale of the personnel of the Missouri SBDC at this point, to have the future management of the center arbitrarily placed in jeopardy without an orderly process, a process that we thought was there in this conflict resolution policy, where we could get issues on the table and find out what we were doing that the SBA did not like.

To this point, that has not yet happened. And again I repeat, this morning in Mr. Cox' testimony was the first time I have received information that the proposal is deemed incomplete by them.

He read a passage from a letter. I wish he had read my response to that letter, that basically pointed out chapter and verse where those items are to be found in our proposal. That proposal is as complete as it can be.

Mr. Chairman, I was going to point out this document in a greater sense. What is happening in Missouri I believe is indicative of a change of direction in the SBA management nationally regarding SBDC's. We have seen some regulations come out that are practically impossible for the SBDC's and a private university to participate in.

I point to this book, published by the SBA, a very complete book listing elements of the Federal Government and others. It contains a complete list of every SBA program, but does not mention the SBDC's at all. And as a State director of the SBDC, had I published something and not mentioned my partners the SBA, I would have had serious reprimands from both the State—or the district, the regional, and the national offices for my oversight.

Some recommendations—and I am probably giving these recommendations or encouragement to you all as I move on.

The CHAIRMAN. Mr. Hale, we are going to have to bring your testimony to a close.

[The prepared statement of Mr. Hale follows:]

TESTIMONY OF
FRED HALE
MISSOURI STATE SBDC DIRECTOR
BEFORE THE
COMMITTEE ON SMALL BUSINESS
U.S. SENATE

OCTOBER 15, 1987

Mr. Chairman, and members of the Committee, my name is Fred Hale. I am the State Director of the Missouri Small Business Development Centers, (hereinafter referred to as MoSBDC) created by St. Louis University, a private, Jesuit University, under a cooperative agreement with the Small Business Administration (SBA).

I am proud to have been invited to appear before you today. Your very kind invitation asked me to respond to several questions regarding the Small Business Development Center (SBDC) Program which I can answer best by using the experience of the MoSBDC as an example.

First, what types of assistance has small business received? The MoSBDC is in its fifth year of operation. Starting with four centers and a budget of \$400,000, the program has grown, I am pleased to report, to 18 centers and a total budget of approximately \$5,000,000 for operations. The program is at the federal funding cap with the SBA providing \$1.39 million, or 28 percent of the total budget. Local funds from participating universities and others total approximately \$2,000,000. Additional funding comes from the Defense Logistics Agency and the Department of Commerce.

During the past year, our nearly 100 full-time employees provided one-on-one counseling to approximately 2600 small businesses. Additionally, we conducted about 450 training programs with more than 10,000 attendees.

As impressive as these numbers are, the real strength of our program lies not in the numbers of clients, but

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rather in the types of services we provide. The easiest explanation would be to summarize our special service state-wide programs.

TECHNOLOGY DEVELOPMENT CENTER

Assists businesses applying existing technology to solve business problems. Generally converts "no" tech firms to "low" tech firms.

TECHNOLOGY SEARCH CENTER

Assists businesses determining the "state-of-the-art" of new technology they have developed.

SBIR HI-TECH

Assists businesses wishing to participate in the federal SBIR program.

PROCUREMENT PROGRAM

Assists businesses wishing to become vendors to federal, state and local governments.

PROCUREMENT MATCHING NETWORK

A computer program that advises businesses of government procurement opportunities that match the product line and capabilities of the firm.

MIDWEST VENTURE CAPITAL NETWORK

A computer program that matches private investors and firms needing seed and early venture capital.

TRADE ADJUSTMENT ASSISTANCE CENTER

Assists manufacturers and processors that have been impacted in a negative fashion by imported products.

Mr. Chairman, these programs, in my opinion, demonstrate a fundamental strength of the SBDC program in that it allows each state to define the particular programs that meet the specific needs of their local businesses. Congress recognized, when creating the SBDC program, the important role of the local state-wide program in determining and addressing the needs of local businesses. Washington cannot effectively do that.

Another facet of our program that demonstrates the high quality of services provided our clients is the superb working relationship the MoSBDC enjoys with private sector consultants. Virtually all of our training programs are conducted by leading private sector volunteer consultants. Additionally, we enjoy significant support in St. Louis, Kansas City, and Springfield from "Big 8" accounting firms and other consultants who volunteer professional staff to assist SBDC clients. For example, Peat Marwick in both their St. Louis and Kansas City offices volunteer several thousand hours of staff time annually to the SBDC and its clients.

Incidentally, this high caliber professional resource complements the already high caliber professional competence of our SBDC staff. In a recent survey of MoSBDC counselors, it was confirmed that 76 percent have a Masters degree or better, and more importantly, more than 60 percent have owned and operated businesses of their own. The Dean of our staff, who runs our Maryville SBDC at N.W. Missouri State University, is an "early" retired Board Chairman of a multiple bank holding company in Northwest Missouri.

Mr. Chairman, the staff of the MoSBDC, and its many private sector volunteer counselors and trainers represent the most competent, professional, and dedicated resource available to small businesses in the state.

I have also been asked to address the question, "What impact has the program had on local economies." The MoSBDC, like other SBDC's, conducts economic impact analyses by surveying our clients to determine what has happened to those clients after working with the SBDC. We surveyed the clients regarding full-time jobs, sales and profits. I am happy to report that during the two-year period of 1984 and 1985, those clients counseled by the MoSBDC in prior years showed a 26 percent increase in employment, a 21 percent increase in sales, and a 51 percent increase in profits over the two years surveyed. The typical business in the State of Missouri has shown only a 4 percent increase in employment during that same period. Mr. Chairman, as much as I would like to claim that the MoSBDC is solely responsible

for the improvements in the operations of our clients, I cannot. It is fair for me to say, however, that there is a very strong correlation between the performance of those companies and the fact that they have been clients of the SBDC.

In establishing the Small Business Development Center Program Congress was explicit in mandating a cooperative partnership between the Small Business Administration and the applicant for the delivery of assistance to the small business community.

Pub. L. No. 98-395, §2(2) specifically mandates:

The Small Business Development Center Program shall be under the general management and oversight of the Administration, but with recognition that a partnership exists under this section between the Administration and the applicant for the delivery of assistance to the small business community. Services shall be provided pursuant to a negotiated Cooperative Agreement with full participation of both parties.

SBA's responsibility under this provision is to implement the statute, using the cooperative agreement instrument, as a flexible legal framework to achieve the objectives of the SBDC statute.

In the Senate Report on the SBDC Improvement Act of 1984, Congress states clearly its intent to recognize the uniqueness of each SBDC and the need to tailor its activities to the actual needs of clients in that region. The goal is to encourage as much diversity in the program as there are states participating. The report notes:

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It was never the congressional intent that all SBDC's would operate in the same way, or place the same amount of emphasis on any one area of counseling and training. An integral part of the legislation has always been the flexibility given to each center to tailor its assistance and service activities to the actual needs of the clients in that region. Since 1979, the agency and the Committees have witnesses tremendous -- and often diverse -- growth among the SBDC's reflecting the diversity of the various service areas.

S. Rep. No. 98-309, 98th Cong., 2d Sess. 13 (1984)
(emphasis added).

Having provided this very summary general background, I would like to discuss a situation that has developed between SBA and the Missouri state SBDC which is potentially destructive of the partnership rights and responsibilities of the two parties.

In May 1987 after an exhaustive, mutual negotiation and proposal process which started in January 1987, including both SBA and SBDC personnel, the SBDC Director presented the proposal for the new fiscal year, beginning October 1, 1987. As part of this process, the SBA District Office indicated that SBA would not approve the proposal until provisions were made for termination of the State Director. This directive came from the SBA Regional Office.

The Dean of the Business School at St. Louis University requested supporting documentation for this radical demand. No detailed justification was presented orally or in writing and no legitimate substantive grounds for the termination requirement were advanced. Meetings between the Dean and

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the Regional office seeking information and documentation in support of the action so that the affected party could respond yielded nothing.

The Dean and SBDC Director recognized that a "conflict" was present and that the refunding proposal was being held in the Regional Office.

The SBDC Program Announcement - Revised 1/87 states:

Any issues arising during the annual negotiation phase of the Cooperative Agreement, or after official award of the Cooperative Agreement, shall be resolved in the manner prescribed and within the time frames as stated in the SBDC Program Policy Guidelines and the Notice of Award Cooperative Agreement. Every effort shall be made to resolve programmatic conflicts at the district office level.

SBDC Program Announcement - Revised 1/87, 14 (Conflicts and Disputes Policy).

The Conflict Resolution Policy in the BDC Program Policy Guidelines states:

(2). In those infrequent instances in which issues and problems cannot be resolved at the SBA district office level within 15 calendar days, the issue will be referred, in writing . . . to the appropriate SBA regional office who will attempt to mediate the issue within 15 calendar days of receipt.

(3). If the regional office cannot resolve the matter within the specified time, it will be referred, in writing, to the Deputy Associate Administrator for SBDC's for final resolution, in writing. The Deputy Associate Administrator for SBDC's will transmit the final resolution, in writing, to the Deputy Associate Administrator for SBDC's for final resolution, in writing. The Deputy Associate Administrator for SBDC's will transmit the final resolution, in writing, to the SBDC Director/Proposal Developer and the relevant SBA regional and district offices within 15 calendar days of receipt.

The Dean, on behalf of the university, following policies just quoted, requested in mid-June that the proposal be forwarded to Washington for final resolution in accordance with the written Policy Manual. Had that Policy been followed by SBA, that proposal would have moved to Washington on July 3rd for resolution of the only issue of conflict, the termination of the SBDC Director. For whatever reason, SBA was not able to adhere to its own written Policies on timeliness. It was not until September 15 that a fact-finding team from SBA arrived at the SBA District Office to resolve the issue. At this point, it was less than fifteen days from the end of the fiscal year, and the end of SBDC funding. While this visiting team was present for three days, no specific allegations were raised, and no specific problems of any nature were identified. The SBDC Director and the Dean were given no report on the findings of that team or opportunity to respond to such findings. Rather, on the 24th of September, the Dean was summoned to the SBA Regional Office for a meeting at which time he was given an ultimatum to dismiss the SBDC Director, or the funding would not be extended beyond September 29th, two working days later. The Dean rejected the ultimatum and after further discussions with SBA officials, SBA granted a continuation of SBA funding for 90 days (through December 31st) provided that during the 90 day period, the Dean terminate the SBDC Director. Under protest, the Dean

acknowledged the continuation letter forwarded by John Grimm, Contracts Officer.

Coincidentally, while undocumented claims of mismanagement were being made by SBA Regional Office personnel this summer, an SBA Inspector General Auditor, Ms. Fonda Stephens, arrived in August to conduct a thorough audit of the program. In an unprecedented period of time of four weeks spent examining the Missouri program, Ms. Stephens, in her exit interview with the SBDC Director, indicated that all costs were allowable, and that there was no waste, fraud or abuse discovered in the audits of the operating records of the University and the state-wide SBDC Program.

The only reasons for SBA's demand for termination of the SBDC Director of the Missouri SBDC that have emerged thus far are that he was "uncooperative" and had a personality conflict with the Regional Administrator of SBA. If there are more substantive grounds for SBA's action, they have not been documented, and no opportunity to respond has been afforded. In fact, the record of accomplishment and performance of the Director and the Missouri SBDC are high. It is extremely discouraging to the morale of all personnel at the Missouri SBDC to have the future management of the Center arbitrarily placed in jeopardy without an orderly process, a fair consideration of any issues that merit review and an effort to respect the rights and responsibilities of the cooperative agreement partner.

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This serious threat to the integrity and continuity of the Missouri SBDC Program is evidence that SBA is not using its position under the cooperative agreement as a partner for constructive purposes that would advance the interests of the small business community. Unfortunately, this is not an isolated situation or example.

Mr. Chairman, I show you an official publication of the SBA, cosponsored by Pacific Bell, called A Tribute to Small Business: America's Growth Industry. Every individual SBA program is mentioned by name, except the Small Business Development Center Program. Mr. Chairman, I respectfully submit that if I, as an SBDC Director, published something, and did not include my "partner," the SBA, in the acknowledgments and the text, I would be severely reprimanded by the Project Officer, Regional Office and Central Office. Here are some specific quotes made this summer to me, or to my boss, Dr. Turner.

The SBDC Program is out of control, and it must be brought into line. (R.A., Region VII.)

SBA is the banker, and therefore, the SBDC must do what it is told. We control the money, we control the program. (R.A., Region VII.)

The SBDC's work for me and do what I say. (ARA/BD, Region VII.)

I would like to tell this Committee that those attitudes are held only in Region VII, but unfortunately, I have heard similar statements and have seen similar actions

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carried all the way through the central management of the SBDC program and in the higher management heirarchy at SBA.

Finally, the strong prospect of oppressive SBA regulations designed to control and micro-manage the SBA/SBDC relationship, is moving us further away from fashioning the kind of decentralized, innovative, diverse program which Congress contemplated.

Mr. Chairman, I believe that this Committee must address the following issues if the SBDC Program is to remain viable and to continue to satisfy its Congressionally mandated mission.

First, the statutory requirement of a "partnership" must be better understood so that the rights of the state and the rights of the local SBDC are taken into consideration in the negotiation of a cooperative agreement. The purpose of a cooperative agreement is to create a "partnership." Consistent with this partnership, the local interests, the state and institutions of higher education that operate the SBDC's should have an equal voice in the determination of what the SBDC should be.

Secondly, this Committee should address and define the notion of "full-time" Director. An argument that exists in my case centers around the fact that I am operating a program for DLA and the Department of Commerce as part of the SBDC at St. Louis University. This is in direct response to the mandate of the law for the SBDC Director to broaden the program and bring additional resources to assist

small businesses. I am paid by St. Louis University with funds from the SBA, from the Department of Commerce, and from the Defense Department. In the opinion of Buck Grimm, Contracts Officer of SBA, this is an unallowable situation in that as a full-time employee, I should be 100 percent paid from the SBA program grant, and my university should not be allowed to provide additional compensation from other grants administered by the SBDC. It appears to me the view of the SBA, in this matter, is that the SBDC Director is a "captive" of the SBA, and as such, should be totally obligated and controlled by the SBA. This notion goes well beyond the distinction of local management and local control of the SBDC. This, again, speaks to the issue of "partnership".

Lastly, a recommendation to this Committee would be to prohibit the SBA from issuing oppressive regulations. Such regulations impair the flexible management of the program and its ultimate effectiveness.

The SBDC program as envisioned and created by the Congress, is efficient, effective, and extremely beneficial to the small business community. This program and the small businesses it serves now need Congressional help in clarifying the issues that will determine how the program will be operated and, in fact, whether it will survive.

The CHAIRMAN. I get the impression somebody does not like you. I do not know who it is or the real reasons for it, but I intend to find out. I do not want to meddle in personnel problems for the most part, but since you have the seemingly unreserved support of the dean, and it seems to me that you really have not been treated fairly insofar as their forthrightness in dealing with their dislike of you, for whatever reasons. Had you heard previous to this morning that there was an ongoing audit of that office?

Mr. HALE. We have been audited by the Inspector General of the SBA. The auditor—and this again is in my formal testimony—upon her departure in the exit interview indicated that our programs, both in the centers at St. Louis University, our costs were allowable and that there was no waste, fraud, or abuse uncovered at any point.

So with that favorable exit interview from the auditor, that is all we have had. In fact, that exit interview from the auditor is the only direct feedback we have had from the SBA, period.

The CHAIRMAN. Who hired you? Did Dean Turner hire you?

Mr. HALE. His predecessor, dean of the business school of St. Louis U.

The CHAIRMAN. Who does the hiring and firing?

Mr. HALE. I do the hiring and firing of our St. Louis University staff. Our center directors in our centers across the State are hired by the local dean of the business schools. They are employees of their own school.

So they are hired in Springfield, Southwest Missouri State. The dean of the business school hires the center director. They are employees of Southwest Missouri State.

The CHAIRMAN. Who is the highest paid employee at the St. Louis University Center besides yourself?

Mr. HALE. Two people who are very close are the director of the St. Louis center, which is a separate location——

The CHAIRMAN. Well, exclude him.

Mr. HALE. Within my program, our statewide training director who oversees our statewide training efforts and administers a major portion of our Defense Department contract. That person is paid \$32,000.

The CHAIRMAN. You mentioned a moment ago that you use private sector consultants. Do you have in your technical advice or your technical assistance program, do you have consultants on the staff for that purpose?

Mr. HALE. We have consultants who are full-time employees of our various centers to provide help and assistance to small business.

The CHAIRMAN. If I came to you—and I'll come back to this in a moment. I want to cover another aspect of it. But if I came to the SBD center in St. Louis University and said, I want to get into the widget-making business out here and I need some assistance because I want to know how to set up my machinery and I want it to be as productive and as efficient as possible, whom would you send to assist me, or would you send anybody?

Mr. HALE. The first visit would be made with one of our staff to determine what the client needs and what we can do. If it is an item that we do not have in-house technical capability—we have

some good people, but in a project of setting up a production line we would probably reach to our center down at Ralla or Columbia, which is an engineering school-based center, and draw personnel from them.

Or that not being available, we would go to the outside, to a professional consultant who has a very narrow technical skill.

The CHAIRMAN. How much would you pay that person for his assistance?

Mr. HALE. There is a limitation that we have imposed on these consultants. We try not to pay more than \$25 or \$30 an hour. In fact, what happens, and we have been very successful at this, in most cases those consultants in fact volunteer their time to work with our clients.

As a practical matter, they view it as a marketing thing for them, to find a company who is growing and that some time off into the future could be a full bona fide paying client. So we take great advantage of those local consultants in their volunteer efforts.

But we limit that. We have paid as high as \$50 to \$60 an hour for very specialized fields.

The CHAIRMAN. Mr. Purdy, how do you let the people in Maine know about the availability of the services in your SBDC? What kind of a PR operation do you have?

Mr. PURDY. Well, we, I think as in most States, have a real dilemma. We serviced—in the State of Maine last year, roughly 4,000 clients which puts a great strain on our resources. Therefore, traditional promotion would simply exacerbate.

The CHAIRMAN. You are not looking for any more, then, I take it?

Mr. PURDY. We are not. What we are trying to do is very selectively market through bankers, accountants, advisory boards, Federal and State agencies, so that we can target on those clients that have had some substantial pre-screening.

It is very expensive to provide this type of counseling to the person that is watching a football game on Sunday and decides Monday they want to come in and start a new business.

What we try to do is, through a screening mechanism, the first person that someone sees in our center is a generalist. Oftentimes it is an MBA student. The consultant goes through a whole list of things that they look at in terms of where the business is in the planning stage, the type of information that they need to be prepared with before they came and saw a more senior consultant.

It is much like Fred's program. I think the programs are very similar. We get clients with highly technical problems that can't afford to pay. Therefore, we just cannot simply be a network out to private consultants.

We do an assessment, and then we will bring in a technical specialist if we cannot find one at the engineering school.

The CHAIRMAN. Dr. Schlafmann, do you have an agricultural assistance program?

Dr. SCHLAFMANN. Our center concentrates on agricultural programs.

The CHAIRMAN. What kind of assistance would you give a farmer, and how would it vary from extension service assistance?

Dr. SCHLAFMANN. We work very closely with the Agricultural Extension Programs of Michigan State University. Our focus is on the business side of operating a farm, not on the latest research in fertilization, crops, and so on. Just how do you run the business, how do you keep your business viable?

The CHAIRMAN. Do any of you gentlemen ever—have you ever been called on by a loan officer of the SBA, who is contemplating making a loan to some applicant out there, to go look his plant over and give them a report? Or is that done in-house by them, or do you know?

Have you ever been asked? For example, if SBA has a half million dollar loan or a half million dollar application for a loan from say an auto parts business and they want to know generally, not whether they have a sufficient amount of security—the land, the building, the inventory, and so on—to cover that loan, but they also want to know how well that business is being run, are you ever asked by SBA to do any kind of an analysis of a loan applicant like that?

Mr. PURDY. I was going to say absolutely, yes, we are. In fact, I wanted to mention something Norm did. We have in the State of Maine an exceptional relationship with our district SBA office. I do not think any of us mean to imply, with the exception possibly of Fred, that there were problems. [Laughter.]

But we get called on quite often by loan officers to do any number of things, including go out and do management audits.

The CHAIRMAN. That is precisely what I am talking about.

Mr. PURDY. We kind of have that China Wall, like in the banks between the commercial division and the investment division. We do not want to get involved in the actual decisionmaking of a loan. That is completely inappropriate.

But however, we are called into many SBA situations. We are frequently in ongoing situations where a loan officer will call up and, for whatever reason, a delinquent payment, for example. We will go out to the clients directly and work, and they would be a high priority client of ours.

The CHAIRMAN. Do they pay you for that service?

Mr. PURDY. Does SBA?

The CHAIRMAN. Yes.

Mr. PURDY. They would say they do.

The CHAIRMAN. I am talking about completely aside—you get a sort of a block grant fund from them, do you not?

Mr. PURDY. Yes.

The CHAIRMAN. And I am just asking you, do you get anything additional for this service?

Mr. PURDY. No.

The CHAIRMAN. How would you say to SBA, "No, we just do not have the personnel and time to mess with it right now, we are too busy."

Mr. PURDY. We have done it. Again, I think it goes back to the relationship. We have an excellent relationship with our district office. We place SBA clients as a high priority, just as we would place clients of our State that is providing us with funding.

We balance those things, and we have never really had a problem. The only problem we have had is when SBA comes down with

a dictate saying, for example, that going to counsel every loan over \$100,000. Then we have a problem.

However, being realistic, looking at the loan portfolio, looking at what we can provide, we have never had a problem with that.

Mr. HALE. I might address that, because I think we have. We have a very active program with the portfolio management clients of SBA, those clients which the SBA has needed to buy back from the banks. Part of that relationship that we have, we will take those clients, those referrals, and take those businesses as clients if in the judgment of our center directors that that business is salvageable.

If they refer one who has not made a payment in 24 months—which they have, by the way—and, because we are resource-limited, if our center director determines, based on the material he is sent and a visit to the location, that it is really a hopeless case, we reserve the right to send that client referral back to the SBA saying, "No, we elect not to deal with that client because of our limited resources."

Having done that, though, that may be one of the reasons that I am called uncooperative.

The CHAIRMAN. I was going to say, that does not necessary ingratiate you with the District Director either, does it?

Mr. HALE. Actually, the District Director is fine, but some of the others I think would find problems with that.

The CHAIRMAN. I may have some additional questions. You have all given very fine and persuasive testimony this morning.

You made me feel a little better about this program, not that I had any bad feelings about it, but you have certainly put yourselves well in describing the program and you have described the kinds of programs you have, and that is really one of the things that I wanted to know more about, and that is what kind of services you are offering.

And apparently you are tailoring your programs to the particular needs of your States and regions, and that is gratifying to hear.

Thank you all very much for being with us.

Our last two witnesses, our last panel: Mr. Dick Tobin, president of Tobitron, Inc., East Hampstead, NH; Ms. Bonnie Libhart from Maumelle, AR. I wondered if we were going to have anybody from Arkansas.

Mr. Tobin, you are first on my list, so please proceed.

STATEMENT OF RICHARD D. TOBIN, PRESIDENT, TOBITRON, INC., EAST HAMPSTEAD, NH

Mr. TOBIN. I want to begin by thanking the Senate Committee on Small Business for inviting me here today to testify regarding the Small Business Development Center Program. I also want to thank the Committee for their sincere interest and dedicated support for the small business community.

On behalf of the SBDC National Advisory Board, and for the record, I want to commend the former SBDC Deputy Associate Administrator, Johnnie Albertson, for her many years of outstanding service and dedication to the SBDC Program.

I am testifying here today not only on behalf of the SBDC National Advisory Board, of which I am chairman, but also as an owner of a small electronics manufacturing company. In addition, I was a 1984 recipient of an SBIR Research and Development Grant.

I was also an appointed delegate to the White House Conference on Small Business, am a member of the Board of Directors of National Small Business United, and played an instrumental role in the 1985 "Save the SBA" grassroots movement.

First, I would like to comment on the role of the SBDC National Advisory Board. The board was established by Congress to advise, counsel, and confer with the SBA and Congress on the SBDC Program.

I have been a member of the board for 1 year and was recently elected chairman. The board is an active board, meeting four times a year and interacting between formal board meetings.

We have two meetings per year in Washington, DC, and two of our meetings annually are held in the field, to learn of the needs of the people in various service locations throughout the country. We have adopted a policy of meeting at SBDC's across the country, from the larger and more successful programs to the programs in smaller States with limited budgets and growing pains.

Our meetings in the field are perhaps the most educational for the members of the board, because it broadens their perspective of the program. One of our most recent field meetings was held in Oregon, and at this time I would like to say to the Committee I am going to leave this tape with you so that you can review it and send it to me.

I believe the on-site meetings give us a first-hand view of the local areas and will better enable the board to perform their role as designed by Congress. Because of this program's unique partnership structure, it is important to the board to understand the flexibility of the geographic locations and how small business operates in these areas.

In addition to this, we encourage all board members to visit as many SBDC locations as possible across the country between formal board meetings. This enables the board to make sound judgments based upon first-hand experience.

It is essential, in order for the board to remain effective, to keep an unbiased perspective for the good of the program.

The original intent was to provide flexibility in delivering services for this diversified program. Flexibility is and must continue to be the key to the program's success. The needs in New Hampshire greatly vary from the needs in Georgia, Oklahoma, or in Oregon.

The SBDC Program has developed especially well after decentralization. It has been accepted by the States, universities, and the small business community because of the local input of the individual SBDC's.

Decentralization is the basic reason that the SBDC Program is a success. Up until 1983, the SBA central office was responsible for the management of the program. SBA then recognized the need to shift the day-to-day operations and responsibilities to the local district offices.

In order to expand and improve the unity of the partners in the SBDC Program, all participants must keep in mind that the ulti-

mate goal of the program is to meet the needs of the small business community. In order to accomplish this goal, all partners involved must make a genuine team effort for the good of their clients.

This means that all partners must first realize that no one partner is superior to the other and that all are equally important to delivering the finished product to the clients, and the finished product in this case is quality assistance for the small business community that the SBDC Program services.

This will ultimately lead to the economic development of that service location and a strengthening of the Nation's economy.

One key to the continued success of the program is to focus on building effective communications, not only between all partners but among all involved in the program. It appears there should be better communications between all program managers within the SBA so that they can work together for the common good of their clients.

We must make optimum use of all expertise available to us. For example, SBDC's and SCORE both have important roles to play in assisting small business. The contribution of the years of experience of SCORE volunteers, combined with the SBDC network, working together as a team, as Americans, would be a tremendous asset to the small business community.

Prior to the establishment of Tobitron, Inc., in 1979, I spent 20 years working in the electronics industry as an engineer. Many of the companies that I worked for were defense prime contractors. From that experience in that particular bureaucratic industry, I discovered that the two downfalls to any program were centralization and untested or unnecessary regulations.

I have been involved with engineering projects where decentralization was the key to the project's success, and just as a project was getting off the ground someone would come along and suggest that the program become centralized in order to maintain control. Regulations would be adopted prior to a true study or test period, and it would take an act of Congress to reverse the regulations. This became very costly, not only to the program, but to the taxpayer as well.

The SBDC Program runs the very same risk right now. The SBA has indicated that because of the increased size of the SBDC Program over the past few years, regulations are to be put into place to insure that the program operations are uniform nationwide.

Issuing of regulations that took months to write, without all partners involved in the review process, leads to mistrust and polarization rather than a unity of partners. It seems to me that we sometimes lose sight of our objective and the program suffers because of the division.

The SBDC Program is not a program that can easily be controlled because of its unique and flexible nature. With that in mind, I believe, yes, regulations must come. However, in fairness to all partners involved, a reasonable test period for evaluation of the regulations should be designated.

It must be determined if the local SBDC service locations would be able to guarantee that their innovation and flexibility would remain intact when the Federal regulations are adopted.

Before regulations were issued on October 1, it would have been my recommendation that the SBA put a 24 month moratorium on the adoption of any Federal regulations. During this period of time, all partners in the SBDC Program should have been consulted regarding the impact of the regulations.

Any necessary regulations could have been tested in policy form while revisions were made as required. This way, no partner could possibly be offended with the regulations because they would be part of the process of developing them. I believe that is what real partnership is all about.

More emphasis needs to be put on the SBDC Program as a major contributing factor to the economic development of an area, rather than just as a management assistance program. The SBDC Program provides local individuals the assistance necessary in determining the feasibility of starting a business.

When qualified individuals make the decision to invest their life savings into a business venture, they contribute to the economic development of the area, thus increasing the economic development of the Nation and its effect on a global economy.

It was over 2 years ago that I initiated the "Save the SBA" movement. My colleagues and I spent many hours of dedicated service to save the SBA from dismantlement because we believed then, as we do now, that the SBA is good for small business.

Through the 1986 White House Conference on Small Business and through trade associations, we have made a total commitment to improve the SBA, thus improving the quality of assistance to the small business community.

I want to point out that, because in the last 2 years there was an air of uncertainty over the very existence of the SBA and because negative seeds were being planted throughout the agency within that timeframe, it undoubtedly contributed to the fact that this program, the second largest program in the agency, has not been given the full attention or recognition that it deserves.

It has been my observation that in the past the facts about the SBDC Program have been presented by the agency in a less than positive manner. There must be improved communications concerning this program.

One step in that direction is to ensure that the SBDC National Advisory Board always be represented on the SBA National Advisory Council, just as other programs such as SCORE are represented. It would certainly assure us that the positive aspects of the SBDC Program would be presented to the SBA National Advisory Council, and in turn they would be assured that they would be presented with factual material.

I will conclude by saying that the excitement and enthusiasm generated from people involved in this program leads me to believe that this program will become the model program for the new SBA, a true champion of small business.

[The prepared statement of Mr. Tobin follows:]



NATIONAL SMALL BUSINESS UNITED

"Serving America's small businesses since 1937"

TESTIMONY OF

**RICHARD D. TOBIN
PRESIDENT OF TOBITRON, INC.
CHAIRMAN, NATIONAL ADVISORY BOARD
SMALL BUSINESS DEVELOPMENT CENTERS**

**BEFORE THE
UNITED STATES SENATE
COMMITTEE ON SMALL BUSINESS

HOLDING OVERSIGHT HEARINGS ON THE
SMALL BUSINESS DEVELOPMENT CENTER PROGRAM**

THURSDAY, OCTOBER 15, 1987

I want to begin by thanking the Senate Committee on Small Business for inviting me here today to testify regarding the Small Business Development Center Program. I also want to thank the committee for their sincere interest and dedicated support of the small business community.

On behalf of the SBDC National Advisory Board, and for the record, I want to commend the former SBDC Deputy Associate Administrator, Johnnie Albertson, for her many years of outstanding service and dedication to the SBDC program.

I am testifying here today, not only on behalf of the SBDC National Advisory Board, of which I am Chairman, but also as an owner of a small electronics manufacturing company. In addition, I was a 1984 recipient of an SBIR Research and Development Grant. I was also an appointed delegate to the 1986 White House Conference on Small Business, am a member of the Board of Directors of National Small Business United, and played an instrumental role in the 1985 "Save the SBA" grassroots movement.

SBDC NATIONAL ADVISORY BOARD

First, I would like to comment on the role of the SBDC National Advisory Board. The Board was established by Congress to advise, counsel and confer with the SBA and Congress on the SBDC program.

I have been a member of the Board for a year and was recently elected Chairman. The Board is an active Board, meeting four times a year and interacting between formal Board meetings. We have two meetings per year in Washington, D.C., and two of our meetings annually are held in the field to learn of the needs of the people in various service locations throughout the country. We have adopted a policy of meeting at SBDCs across the country; from the larger and more successful programs to the programs in smaller states with limited budgets and growing pains.

Our meetings in the field are perhaps the most educational for the members of the Board, because this approach broadens their perspective of the program. One of our most recent field meetings was held in Oregon. At this time, with the permission of the committee, I would like to present an 8-minute tape of the SBDC program in Oregon. The tape captures what I consider to be some of the most important aspects of the SBDC program; not only in Oregon, but throughout the country. The Board came from the meeting with enthusiasm and a genuine understanding of the small business community in Oregon.

PAGE 2

I believe the on-site meetings give us a first-hand view of the local areas and will better enable the Board to perform its role as designed by Congress. Because of this program's unique partnership structure, it is important for the Board to understand the flexibility of the geographic locations and how small business operates in these areas.

In addition, we encourage all Board members to visit as many SBDC locations as possible across this country between formal Board meetings. This enables the Board to make sound judgements based upon first-hand experience.

It is essential, in order for the Board to remain effective, to keep an unbiased perspective for the good of the program.

PARTNERSHIP PROGRAM

As Congress designed, the Small Business Development Center Program is a partnership between the SBA, state government, local universities and the private sector, created to deliver a program that is geared to the small business community from each unique area of the nation.

The original intent was to provide flexibility in delivering services for this diversified program. Flexibility is and must continue to be the key to the program's success. The needs in New Hampshire vary greatly from the needs in Georgia, Oklahoma or Oregon.

The SBDC program has developed especially well after decentralization. It has been accepted by the states, universities and the small business community because of the local input of the individual SBDCs.

Decentralization is the basic reason that the SBDC program is a success. Until 1983, the SBA Central Office was responsible for the management of the program. SBA then recognized the need to shift the day-to-day operations and responsibility to the local district offices.

In order to expand and improve the unity of the partners in the SBDC program, all participants must keep in mind that the ultimate goal of the program is to meet the needs of the small business community. In order to accomplish this goal, all partners involved must make a genuine team effort for the good of their "clients".

This means that all partners must first realize that no one partner is superior to the other and that all are equally important to delivering the "finished product" to their clients. The finished product in this case is quality assistance for the small business community that the SBDC Program serves.

This will ultimately lead to the economic development of that service location and a strengthening of the nation's economy.

One key to the continued success of the program is to focus on building effective communications not only between all partners but among all involved in the program. It appears there should be better communication among all Program managers within the SBA so that they can work together for the common good of their clients.

We must make optimum use of all expertise available to us. FOR EXAMPLE, SBDCs and SCORE both have important roles to play in assisting small business. The contribution of the years of experience of SCORE volunteers, combined with the SBDC network, working together as a team, as Americans, would be a tremendous asset to the small business community.

REGULATIONS

Prior to the establishment of Tobitron, Inc., in 1979, I spent 20 years working in the electronics industry as an engineer. Many of the companies I worked for were Defense Prime Contractors. From that experience in that particular bureaucratic industry, I discovered that the two downfalls to any program were centralization and untested or unnecessary regulations.

I have been involved with engineering projects where decentralization was the key to the project's success. Just as a project was getting off the ground, some one would come along and suggest that the program become centralized in order to maintain control. Regulations would be adopted prior to a true study or test period and it would take an "Act of Congress" to reverse the regulation. This became very costly, not only to the program, but to the taxpayer as well.

The SBDC program runs the very same risk right now. The SBA has indicated that because of the increased size of the SBDC program over the past few years, regulations are to be put into place to insure that the program operations are uniform nationwide.

Issuing of regulations (that took MONTHS to write) without all partners involved in the review process, leads to MISTRUST AND POLARIZATION rather than a UNITY OF PARTNERS. It seems to me that we sometimes lose sight of our objective and the program suffers because of the division.

The SBDC Program is not a program that can easily be controlled because of its unique and flexible nature. With that in mind, I believe...

YES, REGULATIONS MUST COME

However, in FAIRNESS to all partners involved, a reasonable test period for evaluation of the regulations should be designated. It must be determined if the local SBDC service locations would be able to guarantee that their innovation and flexibility would remain intact when the FEDERAL REGULATIONS ARE ADOPTED.

Before regulations were issued on October 1st, it would have been my recommendation that the SBA put a 24-month moratorium on the adoption of any Federal Regulations. During this period of time, all partners in the SBDC program should have been consulted regarding the impact of the regulations.

Any necessary regulations could have been tested in policy form while revisions were made as required. This way, no partner could possibly be offended with the regulations because they would be have been part of the process of developing them. I believe this is what a real partnership is all about.

ECONOMIC DEVELOPMENT AND MANAGEMENT ASSISTANCE

More emphasis needs to be put on the SBDC program as a major contributing factor to the economic development of an area rather than just as a management assistance program. The SBDC program provides local individuals the assistance necessary in determining the feasibility of starting a business. When qualified individuals make the decision to invest their life savings in a business venture, they contribute to the economic development of the area, thus increasing the economic development of the nation and its effect on a global economy.

CONCLUSION

It was more than two years ago that I initiated the "Save the SBA" movement. My colleagues and I put in many hours of dedicated service to save the SBA from dismantlement because we believed then -- as we do now -- that the SBA is good for small business. Through the 1986 White House Conference on Small Business and through trade associations, we have made a total commitment to improve the SBA, thus improving the quality of assistance to the small business community.

I want to point out that, because there was an air of uncertainty during the past two years about the VERY EXISTENCE OF THE SBA and because negative seeds were being planted throughout the agency within that time frame, it undoubtedly contributed to the fact that this program -- the second largest program in the agency -- has not been given the full ATTENTION OR RECOGNITION that it deserves.

It has been my observation that, in the past, the facts about the SBDC Program have been presented by the agency in a less than positive manner. There must be improved communications concerning this program. One step in that direction is to ensure that the SBDC National Advisory Board always be represented on the SBA National Advisory Council, just as other programs, such as SCORE, are represented. It would certainly assure us that the positive aspects of the SBDC Program would be presented to the SBA National Advisory Council and, in turn, they would be assured of being presented with FACTUAL MATERIAL.

I will conclude by saying that the excitement and enthusiasm generated from people involved in this program leads me to believe that this program will become the model program for the new SBA ... A TRUE CHAMPION OF SMALL BUSINESS.

The CHAIRMAN. Thank you, Mr. Tobin. That is a very fine statement.

Bonnie, welcome to Washington and the Small Business Committee. I remember you from the KAIT days and we are very pleased to have you.

**STATEMENT OF BONNIE LIBHART, CHIEF EXECUTIVE OFFICER,
AAPLEX STREET SWEEPERS, INC., MAUMELLE, AR**

Ms. LIBHART. Thank you. Greetings from the State of Arkansas. I suppose everybody else in the room that left had to rush out and get Redskins tickets, and maybe we should go quickly.

As you know, Senator Bumpers, I spent years at Region 8 News, and many companies would send us products, hoping we would use them on the air and give them a little plug perhaps. I did not care for purple cereal, but a cosmetic company came out with a new line and I thought, aha, I will try this one.

So I am smearing this gook all over my face and my little one is watching: What are you doing that for, grandmother? And I said, "Oh, that is going to make me beautiful." He did not take his eyes off, just watched me for the next 30 minutes.

And then I wiped it off and he said, "It did not work, did it, grandmother?"

Sometimes we try things in life, and I think anyone that starts a new business has a lot of gook to put on their face, and some of it just does not work as well as we like for it to. But one of the things about the Small Business Development Center and the free enterprise system, as chief executive officer of AAPLEX Streetsweeper Manufacturing Co. in Little Rock—Maumelle is where the plant is located right at the moment—we have found a lot of opportunities that the SBDC's helped us with, and also we have some challenges with what we feel like they could do in addition to what we have been helped and they have been doing.

So when we just took a deep breath and had a lot of faith in God and started our business, why, in designing and manufacturing street sweepers, one of the first things we did was we went over to see Walker Thayer over at the Small Business Development Center.

And they helped us to write our business plan. We actually have three specific ways that they have really been a help to us in the last 5 years, 7 months, and 23 days.

They helped us with the business plan. First it was a 5-year plan, now it is a 10-year plan, and we follow that like a Bible.

We took that plan to the SBA and they helped us—this plan helped us in getting \$150,000 in direct loans. So we felt like it helped us to focus on where we were coming from in street sweeper manufacturing, in Tony's 27 years involvement in designing equipment, and where we wanted to go.

And then they also helped us, second, in the way that they came in with specific hands-on experience, where to put the paint booth, where to put all of our welding machines, and helped us with our flowchart; our plant manager, our son Anthony, in reading material that we needed.

And third, I feel like they helped us in the seminars that they made available at the University of Arkansas in Little Rock, and we went to seminars, how to set up a business, stress management—I think everyone in our group has gone to that course—and also they helped us in our accounting procedures.

The CHAIRMAN. We need a stress political course.

Ms. LIBHART. One of the things I found about the Small Business Development Center, they were there, someone to talk to. If you try to talk to your CPA, he is not interested in research development. He wants to see something in the history: What have you done? What can I see in black and white.

You go to your attorneys—I call them deal killers—we have about four of them that work, some on our staff, some that we talk to—because they are always telling us why we should not do something like that.

Well, you go to the SBDC and there is a person you can call up and talk to, a human being that knew what we were trying to create—their only motive was creating jobs in our community, and of course keeping their own job.

There were 35 jobs, families that we put to work, which does not sound like a lot. We are on our way to 250 if we can stay in the State of Arkansas, if Tulsa does not steal us over there, because it is not easy to have a business in the State of Arkansas and stay there.

Now, if you had pulled us from somewhere else there is all kinds of terrific—well, I will not get into that.

But it is 35 families and eight new babies I think this year, and seven or eight new homes, and I am sure there are 30 new cars. So there is a lot of benefit to the community to have the small business to be in the community.

In fact, according to the figures that we have done there are 15 million small businesses, if you call everybody that is a computer consultant and one secretary a small business, in the country, and 60,000 of those in the State of Arkansas. 80 percent of our newly created jobs come from small business.

I know Alvin Toffler has this book out, "The Third Wave." He says between now and the 21st century that 85 percent of the growth, between now and the year 2000, will be in the area of the small businesses.

So we feel like it is very important that we have vehicles like the Small Business Development Center and the SBA. Of course, we use the Department of Commerce. And we all work together, the Arkansas Industrial Development Commission and all of us.

I never think about, well, is there somebody different from this? I work with all of them, and they all work together. And I talk to each one.

We just got into a joint venture with Canada, and we worked with probably all four agencies. I know Bill Spinkle originally got in touch with us and the people with the government of Ontario, the Ministry of Trade and Technology. But the Small Business Development Center has helped us.

They do not ever say that this is their area and that area is someone else's. I never even heard all of these problems. I did not even know there were any troubles. The Small Business Develop-

ment Center has been a place you can talk to about your troubles. I did not know they had any of their own. [Laughter.]

We cannot talk to other people about our troubles, because 80 percent of the people you tell about your troubles do not care anything about them, and the other 20 percent are glad you have the troubles.

So we see an additional need in the State of Arkansas, and I can only speak from my personal experience. We need a place where we can find a course about startup funds. They were able to send us to the SBA, or we were aware of it. But we also need a place where—I hear them talking about venture capital; where is it in the State of Arkansas?

I know that Sam Walton and Murphy and Melvin Bell and all these people are talking about the venture capital, but I would like to have a source to go to for venture capital. And I would like to see where it says, this is the criteria, this is what you have to do, and go for it.

And I believe the Small Business Development Center could help us in the State of Arkansas in doing that. If they are doing it in the other States, then how is it that I did not ever know about it? Probably because I do not listen enough. My husband says he would talk more if I would only shut up.

Maybe I need to listen more, but I am not aware of how we can have that help in the State of Arkansas. But I feel like they not only can direct you to the startup funds and the operational funds, but also to the expansion funds. We need to be able to have a place to go to, and I feel like they can do that.

My request to you and your Committee, in our strategy for businesses like AAPLEX Street Sweeper Manufacturing Co., that manufactures sweepers that are sold in 35 of our States and Guam, Puerto Rico, Canada, and other areas—and we are just going to meet today with Francis Chin from Taiwan, who Governor (Senator) Bumpers has met with Mr. Wong over in Taiwan, and we perhaps will license them. They certainly will be our agent and we can sell to Taiwan.

And we need help in putting all of that together. I am only one person, and I taught management in college, and by golly I was a good teacher of management in college. It is just a lot easier to teach than to do. And I wish that I had some more help and people telling us what to do.

But if we are going to compete with the state-of-the-art technology—and new entrepreneurs are the ones that have that new technology. They are the people. We have only 12 worldwide competitors that manufacture street sweepers, and of those only 3 viable U.S. competitors.

You know who people are buying street sweepers from right around you? England and Germany, primarily England, the Johnston Co. We need to be able to do that, to have that money coming in. If it is made in the United States, we ought to buy it in the United States.

And if we are going to do it, we cannot have companies like FMC, that has been in business so many years. They have so many committees, it is hard for them to get a gutter broom designed in 3 years. And in 5 years we put five sweepers on the market, with

enough innovations that the Government just gave us—we won it, we were awarded it—a \$1 million bid from them.

But we could have gotten a \$13 million bid from them. It was written around our sweepers, and they bought almost 200 sweepers. But we could not fund it, we could not fund it. We could not buy 200 engines and 200 gutter brooms and 200—400 gutter brooms—chassis that we put them on.

We need some help. And I know that they can tell us where to go. A lot of people would like to tell us where to go.

If we are going to nurture this entrepreneurial attitude, to hold the slight edge that the United States has known for the past two centuries, and when we release this sleeping giant of untapped potential in our Nation, we will feel some tingle of excitement all over again that our forefathers felt when new inventors and developers were released as the dream-makers of our country in their generation. For without the fruition of their dreams, ours would not exist.

Ladies and gentlemen, Senator Bumpers, with your help we can continue our noble American tradition, for their dreams will feed our dreams, which will feed our children's dreams.

You hold the keys in your hands of the free enterprise system, and the entrepreneurs through tools like the Small Business Development Center.

Conversely, as a former schoolteacher, this is what can happen, as illustrated by this that was put together by our family for you. We call it "Chrysalis," and chrysalis is the stage of change, when a cocoon comes open and a beautiful butterfly comes out, what it was meant to be.

And I feel like as entrepreneurs in our country that this is what the Small Business Development Center helps. They nurture and feed that cocoon so that beautiful butterfly can come out. Otherwise, this is what can happen:

He always wanted to say things, but no one understood. He always wanted to explain things, but no one cared. So he drew. Sometimes he would just draw and it was not anything, but he wanted to carve it in stone or write it in the sky.

He would lie out in the grass and look up in the sky, and it was just him and the sky and the things inside of him that needed saying. It was after that that he drew the picture. It was a beautiful picture. He would look at it and think about it, and when it was nighttime and his eyes were closed he could still see it, and it was all of him.

When he started to school, he brought it with him, not to show anyone but just to have it with him like a friend.

It was funny about school. He sat in a square brown desk like all the other square brown desks, and he thought it should be red. And the room was tight and close, and he hated to hold a pencil and the chalk, with the teacher watching and watching, feet flat on the floor.

After that she came to him and said, "Why do you not wear a uniform and a necktie, like all the other boys?" He said, "I do not like them." She said, "That does not matter."

After that they drew, and he drew all yellow and it was the way he felt about morning, the way God made him feel about morning.

And she came to him and said, "Why do you not draw something like Dale's drawing; is that not nice?" It was after that that his mother bought him a uniform and a necktie.

And he drew rocket ships and airplanes, like everybody else, and he threw the old picture away. And when he was alone and would walk out in the grass and look up in the sky, it was big and blue and all of everything. But he was not any more. He was square inside and brown, and his hands were stiff. And the things inside him that needed saying did not need saying any more.

Each of us has been placed here on Earth and given life for some grand purpose. Each of us has been given a talent. It was put in us to develop, and through its development to bless humanity. That is the ordained purpose that God gives to our life. And your purpose can be accomplished only by you.

I have a premonition that soars on silver wings. I know of your accomplishments and other wondrous things. I do not know beneath which sky nor where you will challenge faith. I only know it will be high.

I only know with the free enterprise system, and entrepreneurs of our country, and vehicles and tools like the Small Business Development Center, each of us can be great.

Thank you.

[The prepared statement of Ms. Libhart follows:]



Mrs. Bonnie Libhart
 Chief Executive Officer
 AAPLEX STREET SWEEPERS, INC.
 1500 Murphy Drive
 Maumelle, Arkansas 72118

STATEMENT

Re: SENATE SMALL BUSINESS COMMITTEE OVERSIGHT HEARING, Tuesday,
 September 22, 1987. SBA'S SMALL BUSINESS DEVELOPMENT CENTER
 PROGRAM (SBDC).

At KAIT-TV, where I hosted a daily television "talk" show, for years many companies would send me samples of their new products, hoping after trying them, I'd tell about them on the air.

I didn't care for many of these -- purple cereal didn't turn me on -- but when one of the cosmetic companies came out with a new line, I thought, "Ah-ha! I'll try this one."

As I was smearing the heavy gook all over my face one night, my little one who was watching asked in his high-pitched voice of childish curiosity, "What're you doing that for, ma?"

Breathlessly and enthusiastically, while continuing to read their enclosed ad, I announced, "Oh! This is going to make me beautiful!"

He watched...he wouldn't take his eyes off my face for the next thirty minutes. When I wiped it off, his bottom lip quivered as he said sadly, "It didn't work, did it Mom?"

Many things we try in life are just like my facial masque -- they just don't work as well as we would like.

However, in exploring the positioning of the SBA's SBDC and the entrepreneurial profile, we found both accomplishments and difficulties.

As Chief Executive Officer of a small manufacturing company in Little Rock, Arkansas, I am testifying at this Senate Oversight Hearing about our personal experience.

1500 MURPHY DRIVE
 MAUMELLE, AR 72118
 (501) 851-7700

manufacturer of
VAC-MAN®

CONTRACTOR | STREET
 MUNICIPAL | SWEEPERS

AAPLEX designs and manufactures streetsweepers for sale to municipalities, commercial contractors, and the federal government. AAPLEX has sweepers in 35 states and is expanding into international markets. We now employ 32 individuals full time, and we have 22 dealer/distributors nationwide.

Since 1911 the Libhart family has been in the automotive business in Lancaster County, Pennsylvania, where it is still in business. This is my husband Tony Libhart's heritage. My family were all farmers and my grandfather founded Hones College in northeastern Arkansas in 1907. This entrepreneurial background contributed to our desire to own our own business; therefore, AAPLEX was started in February, 1982 as a venture of faith in God. Tony, the inventor and developer, had been getting patents for the last two decades for companies like the Colson Company, part of Bob Pritzker's Marmon Group.

AAPLEX has experienced both accomplishments and difficulties through the SBDC program. There are three ways that AAPLEX has been helped by the SBDC in order that it might reach its objectives:

First of all, the SBDC initially helped AAPLEX with a five-year business plan. This business plan was used in the obtainment of a \$150,000 direct loan from the SBA. The SBDC also helped us with market research and computer implementation.

One difficulty AAPLEX faced was that our business plan was assessed as being too academic when we went to commercial financial institutions. Also, AAPLEX was interested in finding additional sources for either Debt Financing, Equity Financing or Venture Capital. The SBDC helped us in both these areas by providing practical financial guidance.

Secondly, the SBDC further assisted AAPLEX by giving our son Anthony, Plant Manager, assistance in selecting pertinent reading materials, and also by giving him hands-on training in design layout of the materials flow charting for the plant.

Last of all, we received other services from the SBDC which included business seminars; for example, how to start a business, accounting procedures, and stress management. Another service was provided for us when the SBDC Director, Paul McGinnis, put us in touch with Arthur Young, one of the "Big 8" accounting firms, in order to assist us in getting our accounting system bench-marked for the purpose of accommodating our future plans to go public, possibly in 3 years.

In the growth and development of AAPLEX, these SBDC services helped us as much as any tangible organization of assistance could. I am a bit humorous saying that it never does any good to tell people your problems because 80% of them don't care anyway and the other 20% will be glad to hear that you have them! However, that was definitely not the case with the SBDC at UARK. It was a tremendous comfort to have an organization serve as a sounding board for our ideas and to have someone to talk to who didn't have any ulterior motives of profit or gain for themselves, (which is the case when we turn to an attorney or a CPA), other than providing jobs in the community, and keeping their own jobs, of course.

A major difficulty that the SBDC could help all small businesses with is the lack of awareness that many small businesses have of federal issues that could affect them. I envision the SBDC as a liaison between small business and the White House. The SBDC could serve a valuable purpose by sending out a bulletin which states proposed and actual federal legislation to small businesses.

For example, at the White House Conference on Small Business in 1986 we were made aware of issues such as the Mandated Parental Leave Act, the Liability Insurance Reform Act, and the Government Prompt Payment Act. If the Mandated Parental Leave Act were passed, it would bankrupt many small businesses such as AAPLEX who could not afford to pay parents mandatory child care leave. For this reason, it is very important that small businesses should have a voice in deciding national policies which could affect their fates. Small businesses can only exercise their freedom of expression when they are made cognizant of the facts -- the SBDC could diligently be enabled to provide this service for them.

Our Arkansas Governor Bill Clinton said, "These are exciting times for Arkansas' entrepreneurs. I extend my full support to you and the Arkansas Small Business Development Center, and I look forward to your continued impact upon our state."

Changes and recommendations must be instituted to make this program a more effective tool for the important small business community. There are 15 million small businesses in this country, and a portion of these include businesses started by women and minorities. Therefore, the small business is a vital part of our national economy. The SBDC has helped to provide opportunities for segments of our population which otherwise would not have had a chance to fulfill their visions of self-determination and self-reliance.

In Arkansas alone there are 60,000 small businesses. Over 80% of the new jobs in our state are created by small businesses.
OVER 80% OF THE NEW JOBS ARE CREATED BY SMALL BUSINESSES:

BEST AVAILABLE COPY

It is imperative that there be available start-up funds, operational funds, and expansion funds. These must be tapped for the small business so that it will not be swallowed up by its large competitors, like APPLE STREET SWEEPER MANUFACTURING could be by the Fortune 500 companies such as FMC, and/or Elgin, which started in 1914.

New companies like ours must compete through better state-of-the-art products. For our country to continue its position in the world as a leader in technology, it must nurture the entrepreneurial attitude so we can hold the slight edge that we have been known for during the last two centuries.

When we release the sleeping giant of untapped potential in our nation, we will feel the same tingle of excitement all over again that our forefathers felt when new inventors and developers were released as the dream makers of our country in their generation; for without the fruition of their dreams, ours would not exist. Ladies and gentlemen, with your help, we can continue our noble American tradition, for their dreams will feed ours.

A certain little boy always wanted to say things, but no one understood. He always wanted to explain things, but no one cared, so he drew. Sometimes he would just draw and it wasn't anything, but he wanted to carve it in stone and write it in the sky. He would lie out in the grass and look up in the sky and it was so big and blue and full of everything. It was after that that he drew the picture. It was a beautiful picture. He would look at it and think about it and when it was night time and his eyes were closed he could still see it. It was all of him.

When he started to school he brought it with him. Not to show anyone, but just to have it with him like a friend.

It was funny about school. He sat in a square brown desk and he thought it should be red. And the room was tight and close and brown.

The teacher came and said to him, "Why don't you wear a tie like all the other boys". And he said, "I don't like ties". She said, "Why don't you wear a uniform like all the other boys?" He said, "I don't like uniforms."

It was after that that he drew and it was all yellow and it was the way God made him feel about the morning, and the teacher came to him and said, "Why don't you draw rocket ships and airplanes like all the other boys?" It was after that that his mother brought him the uniform and a neck tie like all the other boys.

And when he was alone and would lie out in the grass and look up in the sky and it was big and blue, he wasn't anymore. He was square inside and brown, and his arms were stiff. And the things inside of him that needed saying didn't need saying anymore.

BEST AVAILABLE COPY

Each of us has been placed here on earth and given life for some grand purpose. Each of us has been given a talent. It was put in us to develop, and through its development to bless humanity; that is the ordained purpose behind each of our lives. Your purpose can be accomplished only by you.

The purpose of the Free Enterprise System and the small business of today can only be accomplished through the entrepreneurial system in this great country of ours.

I have a premonition that soars on silver wings. I know of your accomplishments and other wondrous things. I do not know beneath which sky nor where you will challenge faith. I only know it will be high. I only know that with God and freedom in this country we're going to continue to be great.

The CHAIRMAN. Bonnie, maybe we should add drama school and hire you as the counselor.

First of all, before you move to Tulsa, if you do not find the venture capital you check with me, will you. [Laughter.]

Ms. LIBHART. I talked to your sister.

The CHAIRMAN. We do not want you running off to Tulsa.

Ms. LIBHART. I'll tell you what. You cannot believe it, they are pretty aggressive over in Oklahoma.

The CHAIRMAN. The interesting thing about it is, if you were in Oklahoma and you were thinking about coming to Arkansas, Arkansas would offer you the sky and the Moon, too. You made the mistake of starting out there.

Ms. LIBHART. I cannot get my mother to move to Oklahoma, though.

The CHAIRMAN. When I speak to chamber of commerce groups in the State, I make that point. I come from a little town which is very small, under 2,000 people, and when I was president of the chamber of commerce and head of the business development committee and all that sort of thing, we used to send out letters and we would do everything in the world to try to attract interest in our little town.

We did not really realize how small and inconsequential we were, and we were shooting for General Motors. And all the time we were doing that, there were little businesses starting all over town. And today we have four businesses in my hometown that have between 50 and 100 employees, every one of them homegrown, starting up with three people.

And the curious thing about it is nobody pays much attention to them. They just sit there and do their own thing. But if they had come to us when we were trying to attract industry and said, we are going to hire 50 people in this town if you will give us a lot and built a rail spur and arrange for the venture capital, well, we would have jumped through cartwheels—we would have done cartwheels to get a plant like that.

Ms. LIBHART. What is the name of that hometown again?

The CHAIRMAN. They would probably do cartwheels if you want to move there.

But I always remind the chambers of commerce, you know, as the preacher used to say, do not run past more than you are going to catch up to. And that is what a lot of these economic development committees in towns all across America are doing.

They are not promoting what they already have or trying to give somebody a hand at the local level. And you and your husband obviously just started out. Mr. Tobin was doing what he was doing, but he was doing it for somebody else, and that is just not as gratifying. It often does not pay as well, either.

Mr. TOBIN. That is right.

The CHAIRMAN. But I think there is something like 700,000 new businesses starting in this country every year, and about 95 or 97 percent of them do not make it.

When you think about the costs of the Small Business Development Centers—and they are not all perfect and some of them are not doing as well perhaps as they should—but you see, if they were

really responsible for your business—you mentioned 7 houses and maybe 25 or 30 automobiles and all that sort of thing.

If you multiply that across the country by a whole bunch of small businesses that have really prospered as a result of help from SBDC's, then that makes the cost of this program very small.

Just as I pointed out a moment ago, we used to want to spend money and give tax credits and give tax benefits and give somebody a lot to build on and everything they wanted to get them started. And these people are just real small businesses who have been helped by this program and the Small Business Administration.

It is one of the reasons I am a great proponent of SBA. It's not the greatest thing in the World, and I recognize there are some philosophical flaws in having an SBA. But small business is what makes the mare go in this country, and I am honored to be Chairman of the Committee and honored to have both of you here today to tell about both the successes you have had and the problems you have had and the problems you still face.

You both gave excellent testimony. I do not have any questions for you, but we thank you most sincerely on behalf of all the Members of the Committee for coming to be with us this morning. Thank you again.

The Committee will stand in recess until the next call. The record will remain open for additional comments by Members and questions to be submitted and answers from the witnesses.

[Whereupon, at 12:55 p.m., the Committee was adjourned.]

APPENDIX

U.S. SENATE,
OFFICE OF THE MAJORITY LEADER,
Washington, DC, October 15, 1987.

Hon. DALE BUMPERS,
Chairman, Committee on Small Business,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: It is not possible for me to personally testify before your Committee today on the Small Business Development Center (SBDC) program. But, I am writing to inform the Committee of my strong support for the program.

Over the last year, West Virginia SBDC officials have assisted me in marketing five government procurement conferences that I have sponsored throughout my state, and which were attended by hundreds of business owners. Those conferences were productive sessions for West Virginia small business owners who have historically shown interest, but have had limited success in securing federal procurement contracts.

Much of the success of the West Virginia SBDC is due to Ms. Eloise Jack, the West Virginia SBDC Director, and Mr. Marvin P. Shelton, the West Virginia Small Business Administration (SBA) District Director. They have a good working relationship which is in the best interests of my state's small business community. The SBDC in West Virginia is a program which serves a wide constituency—a service that is important to West Virginia's economic development (small businesses make up 98 percent of the business in the state). In the first 9 months of the SBDC's current operating year, it has provided counseling to nearly 1600 small businesses and provided training to more than 4500 other small concerns. At the present rate, I am told, the West Virginia SBDC will surpass the counseling and training objectives established for the SBDC this year. And, if there is a hallmark of the SBDC, it is the continuity and high quality of service it offers.

West Virginia SBDC officials have two major concerns about the direction the national SBDC program appears to be taking, and the impact this new direction would have on SBDC operations in my state. The first concern is with an apparent change in the relationship between SBA and the SBDC's. I understand that this program is a partnership with the states and the federal government each contributing an equal amount of funding. Under such circumstances, West Virginia SBDC officials feel each partner should participate equally in the relationship, not only in terms of writing the cooperative agreement determining state program milestones and objectives, but also in executing the policy Congress has established. This execution takes the form of program announcements, operating procedures, and other documents which govern the program. West Virginia SBDC officials believe the SBDC program should be under the general management of SBA, but that should not mean that SBA has total control over the program. West Virginia SBDC officials strongly feel that SBA's central office is attempting to dictate policy to SBDC's and control the program when it should be working with them to develop and execute policies.

According to West Virginia SBDC officials, the new regulations SBA has proposed to govern the SBDC program would have a profound negative affect on the SBDC, and, therefore, on the small business community it serves. These regulations, I am told, appear to be an attempt by SBA to both prescribe and prohibit program and SBDC activities. This raises a fundamental problem in that if a state wants the SBDC to provide one type of service and the SBA does not want the SBDC to provide such service, what happens? This conflict will create a bad situation. Additionally, these regulations impose requirements on the SBDC partner which far exceed those found in government-wide circulars. I believe the concerns being raised by West Virginia SBDC officials are serious.

It is my understanding that SBA is now expected to re-propose SBDC regulations for public comment. If the re-proposed regulations are not a major improvement over those which were originally proposed, then West Virginia state officials have advised me that it is in my state's best interests that the SBDC regulations never take effect.

Mr. Chairman, thank you for this opportunity for me to share with your Committee the views of West Virginia SBDC officials regarding this important program.

With best wishes, I am

Sincerely yours,

ROBERT C. BYRD.

U.S. SENATE,
COMMITTEE ON APPROPRIATIONS,
Washington, DC, April 7, 1987.

Hon. DALE BUMPERS,
Chairman, Committee on Small Business,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: I have followed closely the work of the North Dakota Small Business Development Center since its inception in 1985. I'm troubled to learn that the Small Business Administration is proposing regulations for the SBDC program that appear to me to be unwarranted given that SBA and the states now use a combination of program announcements, cooperative agreements, policy manual and guidelines, and OMB circulars to operate the program. Given the dire state of our North Dakota economy, we cannot afford to have the only effective small business outreach program in our state crippled by needless, disruptive regulations.

I hope that your Committee will carefully examine this issue and encourage SBA to abandon its efforts to adopt any SBDC regulations in final form.

Thank you for your consideration and help.

With kind regards, I am

Sincerely,

QUENTIN N. BURDICK.

U.S. SENATE,
Washington, DC, October 2, 1987.

Hon. DALE BUMPERS,
Chairman, Committee on Small Business,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: Today, the director of the Maine Small Business Development Center (SBDC) visited my office to discuss the Small Business Administration's management of the SBDC program. I was greatly distressed by what I learned.

It appears that the SBA national office is intent upon dramatically changing the relationship between the SBDC's and the agency. The partnership which now exists in both program administration and delivery would likely be destroyed if the SBA is successful in its efforts to implement new management systems for the SBDC program. The SBA's effort to programatically and financially micro-manage the SBDC's is unacceptable when the level of state, local and private dollars far exceeds the SBA's contribution to the program.

Based on my review of the SBA's draft regulations which I understand the agency will propose in the near future, I strongly urge the Small Business Committee to carefully consider the negative implications to the SBDC's should these proposed regulations become final.

I understand that you will be chairing an oversight hearing on this program later this month. I hope you will question the SBA's intent in issuing the proposed regulations, and will make it clear that the agency does not, nor should it dictate program terms to its state partners.

With best regards, I am

Sincerely

WILLIAM S. COHEN,
U.S. Senator.

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC, March 24, 1987.

Hon. DALE BUMPERS,
U.S. Senate,
Washington, DC.

DEAR DALE: I am contacting you regarding the Association of Small Business Development Centers. I am thankful for your support of this most important organization.

Rural states like South Dakota rely heavily on the resources that Small Business Development Centers provide. I ask that you continue to support this vital program.

I also urge that you not adopt the Small Business Administration's proposed rule that would have them oversee the operation of the Small Business Development Center Program. The new rule would be contrary to applicable laws and policies, and it would disrupt the SBDC Program and undermine its objectives. If you are considering the proposed rule, I would strongly encourage you to conduct a hearing on the matter before reaching a final decision.

Again, I hope you will continue to give your full support to the SBDC program and allow the centers to operate without interruption. I appreciate you taking the time to consider this matter.

With best wishes, I am
Sincerely,

TOM DASCHLE,
U.S. Senate.

U.S. SENATE,
COMMITTEE ON SMALL BUSINESS,
Washington, DC, September 9, 1987.

Hon. DALE BUMPERS,
Chairman, Committee on Small Business,
Washington, DC.

DEAR DALE: On September 22, the Senate Small Business Committee is schedule to hold an oversight hearing on the Small Business Development Center (SBDC) program. We have an exceptional SBDC in Massachusetts which has won widespread recognition and support from our small business community.

Over the last year and even more so over the last six months, there has been a critical breakdown in the relationship between the Small Business Administration (SBA) and the SBDC. The Massachusetts SBDC continues to have a good relationship with the SBA district and regional offices. The problem appears to be coming from SBA's central office.

The Massachusetts SBDC was created as a full and equal partner with SBA. The State provides fifty percent of the program's funding. Today, however, SBA is attempting to treat it as a contractor and not as an equal partner. This is unacceptable to the University of Massachusetts which delivers the program in the State and which signed a cooperative agreement, not a contract, with SBA. This cooperative agreement demands a partnership relationship, including an equal status in all effects to implement the congressional intent of the program.

Although SBA's new management attitude toward the State and our SBDC has manifested itself in different ways, it is most clearly evident in the regulations SBA has proposed for the SBDC program. These regulations do everything from assuming the State's dollar contribution to the program becoming the domain of SBA, to intruding into state and university personnel and fringe benefit policies.

I appreciate your holding this hearing on SBA's management of the SBDC program. I hope the Committee will begin to get SBA's management problems corrected. They cannot be allowed to continue, and I urge that the proposed regulations be immediately withdrawn.

Sincerely,

JOHN F. KERRY.

U.S. SENATE,
Washington, DC, October 2, 1987.

Hon. DALE BUMPERS,
Chairman, Committee on Small Business,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: I was pleased to learn from the Rhode Island Small Business Development Center (SBDC) that you will be holding an oversight hearing on the SBDC program on October 15. If the Rhode Island SBDC is indicative of the other SBDC's around the nation, I think you will find this to be a very worthwhile program.

The Rhode Island SBDC is located at Bryant College, a private institution. There are 5 subcenters throughout the State, one of which is located in a Chamber of Commerce and another in an economic development organization. Most often, each subcenter delivers a specialized service. For example, the subcenter at the Opportunities Industrialization Center provides special counseling services and training to meet the needs of the minority business community. The SBDC receives nearly \$350,000 in cash contribution from non-federal sources which include Bryant College, the Levy Foundation, Citizen's Bank and Eastland Bank. In summary, I believe the SBDC is meeting the needs of our local communities. Private sector support for it, both financially and otherwise, seems to support my view.

The SBDC's relationship with the Small Business Administration (SBA) at the District and Regional Office levels is solid and one of mutual support. I am concerned, however, about what appears to be an attempt by SBA's Central Office to control the SBDC and to minimize the role of the State, Bryant College, and the SBDC State Director in developing programs and methods of delivery which best meet the needs of our local small business community. This effort to impose centralized control is not appropriate in a program where the total State, local and private sector financial contribution exceeds SBA's. Further, I do not believe it is consistent with the Congressional intent embodied in the program's 1984 reauthorization legislation. As you must be aware, this effort is most clearly evident in regulations the SBA has proposed for the program.

I again want to thank you for helping the SBDC program oversight hearing. I hope that SBA's management problems will be corrected as a result of it. If not, I hope you will assist in seeing that these proposed regulations are not implemented.

Warm regards.

Ever sincerely,

CLAIBORNE PELL.

U.S. SENATE,
Washington, DC, October 6, 1987.

Hon. DALE BUMPERS,
Chairman, Committee on Small Business,
Washington, DC.

DEAR DALE: I understand that you are conducting an oversight hearing on the Small Business Development Center (SBDC) Program, managed by the Small Business Administration (SBA), on October 15. I ask that you include this letter in the hearing record.

The West Virginia SBDC Program performs a vital function. The program control center is located in Charleston and there are eleven subcenters throughout the State. All of them, with the exception of one, are located in State colleges or universities. This year more than five thousand people will have attended SBDC training sessions and more than two thousand business owners have received counseling from the SBDC's fifteen counselors.

Recently the SBDC has begun a concerted effort to develop more federal procurement opportunities for West Virginia small businesses. To facilitate greater small business involvement in the procurement process, the SBDC Program has developed an interactive computer match program between small business and the Commerce Business Daily solicitations. This system identifies opportunities for the small business and allows the small business to access the procurement process. The SBDC Program gives small business one-on-one assistance in developing responses to requests for proposals.

I believe our SBDC Program is meeting a local need. However, I am troubled by the SBA's central office management of the program. The agency's proposed regulations totally ignore the fundamental partnership between the federal government and the states in delivering this program and its services to our small business

owners. The West Virginia SBDC Program operates under a cooperative agreement with the SBA, not a contract and thus a partnership is necessitated. Congress recognized this by including the partnership language in the program's 1984 reauthorization legislation. Now these regulations seek to destroy that partnership by dictating terms to the states. I ask that the Committee carefully review these regulations which I believe are not in the best interest of the West Virginia small business community or the SBDC Program.

Sincerely,

JOHN D. ROCKEFELLER IV.

STATE OF MICHIGAN,
OFFICE OF THE GOVERNOR,
Lansing, MI, September 16, 1987.

HON. DALE BUMPERS,
Chairman, Committee on Small Business, Washington, DC.

DEAR MR. CHAIRMAN: Thank you for holding an oversight hearing on the Small Business Development Center (SBDC) program. I hope it will provide valuable insight into the program's management and activities.

I am proud to have had the opportunity to vote for the establishment of the SBDC program as a congressman, and to have endorsed the establishment of the Michigan SBDC as Governor. The Michigan SBDC program is proving to be an indispensable economic development tool as we attempt to diversify our economic base and to improve the competitiveness of our small business community. Although the core activity of the program remains the counseling and training of small business owners, the MI-SBDC is involved in an array of other activities which I believe are in the best interest of our small business owners.

Through its specialty centers, for example, the MI-SBDC provides assistance unique to Michigan's tourism industry, export trade, and to small business innovators and inventors. Assistance with innovative research through an SBIR specialty center and the transfer of dormant technology from major corporations to small businesses are among the other contributions the MI-SBDC makes.

Of special note is the relationship which exists between the MI-SBDC program and the Michigan Department of Commerce small business assistance programs. We have leveraged resources from both state and federal governmental agencies and from many local organizations to significantly broaden our outreach to the small business community, and to provide programs for minorities, women, veterans, and special programs for procurement assistance, as well as incubator and area development support.

The MI-SBDC has an excellent relationship with the Small Business Administration's (SBA) district office in Detroit, under the effective leadership of Raymond Harshman, and Michigan's small business owners appear to think very highly of the MI-SBDC.

The SBDC program is relatively unique among federal programs, and certainly among SBA programs, in that the relationship between the applicant, who provides 50 percent or more of the funding, and the federal government is set forth in a cooperative agreement. The State of Michigan and the lead SBDC institution, Wayne State University, are thus equal partners in the program. The relationship is not governed by a contract which places one contributing partner subject to another.

I am concerned that this basic, and most important principle, not be diluted by administrative action or edict from SBA's central office. I am especially concerned over the regulations which the SBA has proposed for the SBDC program. While I am well aware of the federal government's responsibility for managing this program, these regulations go beyond good management. They exceed government-wide circulars, and assume the state's contribution to the program automatically becomes a federal dollar under the control of the SBA. They impose uniform requirements upon all SBDCs and, thus, restrict creative response to individual state and community requirements.

The proposed regulations, in sum, usurp the congressional intent behind cooperative agreements and the partnership basis of the program. These regulations are neither in the best interest of the MI-SBDC nor of Michigan's small business community. I am asking Senator Riegle and Senator Levin to oppose their implementation.

Again, Mr. Chairman, I congratulate you for holding these oversight hearings on a program which is growing in importance and value to the Michigan economy. We look forward to working with you to strengthen the SBDC program and the partnership arrangement between all contributing parties so as to increase the program's

ability to respond to the inique requirements of the small business community within each state.

Respectfully,

JAMES J. BLANCHARD,
Governor.

SERVICE CORPS OF RETIRED EXECUTIVES,
ACTIVE CORPS OF EXECUTIVES,
September 14, 1987.

Hon. DALE BUMPERS,
Chairman, Senate Committee on Small Business,
Washington, DC.

DEAR SENATOR BUMPERS: Late last week when I learned that the SBDC oversight hearing by your committee on September 22nd would include testimony on the status of the proposed rule changes involving the SBDC program as published in the Federal Register earlier this year, we requested an opportunity to provide oral testimony at that hearing because of our strong opposition to some of the proposed changes.

However, when our General Counsel contacted the staff member of your committee responsible for setting up the hearing, he was advised by her that the deadline had already passed for approving others who might wish to testify. She did assure him, however, that any written statement that we might wish to make would be included in the written transcript of the hearing if it were received by September 20th.

This letter together with its attachments comprise that statement for the record. I will be attending the hearing and will be pleased to provide oral testimony at the committee's request.

Following our review in late March and early April of the proposed rule changes, two sections were identified which were totally unacceptable to the SCORE Association. These sections were sections 129.10(c)(3) and 129.17(c). Therefore, in a letter to Ms. Johnnie Albertson, DAA/SBDC, we protested the proposed changes.

Ms. Albertson replied to our letter on April 30, 1987 stating that "When the review of all the comments is concluded, a final draft of the proposed regulations will be issued. At that time a meeting will be scheduled . . . to discuss the proposed regulations and SCORE's recommended changes."

Both of the above referenced letters comprise the enclosures to this letter and are to be included as a part of our written testimony of the oversight hearing.

SCORE's primary objection to the proposed rule changes lie in the fact that if approved they would transfer the management, control and coordination of SBA's management assistance resources to the SBDC. This would not only abrogate SBA's responsibilities for assisting small business as set forth in the Public Law but would also place the SBDC in a position where it could ignore the SCORE organization and its field units and direct the activities of SCORE's individual volunteers.

Such an action would have a number of very adverse affects.

1. It would demotivate SBA's employees across the country by relieving them of substantial authority and responsibility for delivering quality management assistance service to small business.

2. It would provide a vehicle for the control and direction of SCORE's management structure which in turn would result in confusing SCORE's membership as to whom they were responsible, and seriously impair the integrity of SCORE's operations.

3. It would put the management of SBA delivery resources under the control of an organization which under the Public Law that created it was intended to be a deliverer of services and not a manager of the functions entrusted by law to a Federal agency, the SBA.

For more than twenty years the SCORE Association and its members have worked closely with the SBA in promoting, supporting and implementing its programs to help small business. In SBA district offices, where space is shared, it is often difficult to distinguish between SCORE volunteers and SBA employees as they tend to the needs of the small business owner.

Any changes in the regulations which would interrupt or cause this long lasting, direct working relationship to deteriorate would have a very destructive impact on both the SBA's and SCORE's ability to continue delivering quality management assistance to the small business communities of the nation. Additionally, it might well

cause the SCORE Association to seriously consider severing its partnership with the SBA and to seek another sponsor.

The policy and procedural changes proposed in the SBA rules would have a major impact on SCORE's ability to provide the most cost-effective service of any SBA resource funded by the Federal Government. Therefore, we strongly urge that your committee not approve or support the revisions referred to in section 129.10(c)(3) and 129.17(c) of the proposed rules.

Sincerely,

JOHN H. TITLEY,
President, SCORE Association.

SERVICE CORPS OF RETIRED EXECUTIVES,
ACTIVE CORPS OF EXECUTIVES,
Ashland, OK, April 13, 1987.

Ms. JOHNNIE L. ALBERTSON,
Deputy Associate Administrator for Business Development/Small Business Development Centers, Small Business Administration, Washington, DC.

DEAR MS. ALBERTSON: It has just come to my attention that the proposed rules which SBA published on the Small Business Development Program (13 CFR 129; 51 Fed. Reg. 37580-37605) contain provisions to which SCORE has strong objections. We in SCORE thought we had no reason to review the SBDC rules because we had been assured many times by SBA officials that SBA, in administering its management assistance resources, would never give the SBDC program responsibilities over SCORE. We now find this trust misused.

Since SBA's review of comments on these proposals is still open for changes, and written comments are needed for the record, I am making this formal request that the proposed rules be changed in the respects indicated below.

1. Section 129.10(c)(3). This subsection refers twice to "SCORE/ACE Programs" and to "a member of SCORE or ACE". This language is inappropriate. In 1982 SBA and SCORE agreed to making the ACE program and ACE members an integral part of the Service Corps of Retired Executives Association, whose trademark is SCORE. ACE volunteers as integrated into SCORE are bound by the same rules, policies and procedures as other SCORE volunteers. References to "ACE" should, therefore, be deleted.

It is also inappropriate to say that SBDC is to foster a productive relationship "between itself and the volunteer counselors of the SCORE/ACE program." This language suggests that the SBDC, which is unit, is to cut through or ignore the SCORE organization and its field units (chapters and satellites), and to relate directly to SCORE's individual volunteers. SBA should rather want to see a productive relationship between SBDC and SCORE as organizations, which in turn are responsible for their own members and their activities vis-a-vis other SBA resources.

Accordingly, Section 129.10(c)(3), if kept, should read: "(3) SCORE program: (i) It is the responsibility of the SBDC to foster a productive relationship between itself and SCORE. (ii) The SBDC shall attempt to have a member of SCORE on the State or Regional SBDC Advisory Board."

2. Section 129.17(c), headed "Resources". In these provisions, SBA gives the SBDCs the responsibility to "concentrate on developing and coordinating" various SBA "resources" in providing services to the small business community in the SBDC service area. Also, SBA states that "SBDC business community in the SBC service area. Also, SBA states that "SBDC services shall be provided to small businesses by the assignment of qualified resources." Then the subsection lists "SCORE/ACE participants and other volunteers" among the various SBA "resources." The section further instructs the SBDC Director to "attain a balanced use of resources" to be responsible for "the development and expansion of resources" within the SBDC area; and to "develop new resources." (Emphasis added.)

It is clear from the operative language of these rules that SBA would make the SBDC organization its dominant SBA management assistance resources; would delegate to its SBA administrative responsibilities over these resources; and would entrust to the SBDCs the authority to control SCORE, intrude upon SCORE's operations throughout the country, and seriously impair SCORE's integrity as an organization by dealing directly with SCORE's volunteer members wherever located.

You can readily understand the impropriety of these proposals so far as SCORE is concerned. Assigning these responsibilities to the SBDCs runs counter to all of the solemn assurances that SCORE has received from SBA administrators and officials since the SBDC program was first enacted. There is nothing in the SBDC legisla-

tion, the SBA/SCORE Program, or otherwise, that calls for or supports this proposed SBA position. In fact, SBA is abdicating its own authority by delegating these responsibilities to SBDCs.

Further, publication of these proposals without prior discussion with SCORE is contrary to the current Memorandum of Understanding between SCORE and the SBA which provides in part that proposals by SBA "for modifications to existing plans, policies and procedures will be submitted for consideration by the other party prior to issuance."

Finally, the designation of SBDCs as the predominant management assistance resource for SBA, with the assignment of SBA responsibilities in this area to SBDCs, on an open-ended basis, is completely inconsistent with the announced Administration position to phase out the federal funds within several years. These rules, to the contrary, would enhance and expand the SBDC program beyond its present scope in the current operation of SBA's management assistance resources.

SCORE requests that these objectionable provisions be dropped from the final rules. We also request an opportunity to discuss those rules affecting SCORE with you and appropriate Business Development officials prior to their final publication as the Memorandum of Understanding requires. This is only fair and proper in view of SCORE's important contributions as the primary management counselling resource for SBA.

Sincerely,

JOHN H. TITLEY,
President, SCORE Association.

APRIL 30, 1987.

Mr. JOHN H. TITLEY,
*President, SCORE Association,
Ashland, OR.*

DEAR MR. TITLEY: I have received your letter of April 13, 1987, containing comments on the Agency's proposed regulations for the Small Business Development Center Program. I have furnished a copy of the letter to the Agency's Office of General Counsel and they, along with my staff, will review the comments you provided. Every effort will be made to accommodate the views of the SCORE Association as expressed in your letter.

When the review of all the comments is concluded, a final draft of the proposed regulations will be issued. At that time, a meeting will be scheduled, as you have requested, to discuss the proposed regulations and SCORE's recommended changes.

Sincerely,

JOHNNIE L. ALBERTON,
Deputy Associate Administrator.

TESTIMONY OF MICHAEL A. DONAHUE, ILLINOIS DEPARTMENT OF COMMERCE AND
COMMUNITY AFFAIRS

[Note: As Deputy Director, Mike Donahue is responsible for the management of the Small Business Programs provided through the Illinois Department of Commerce and Community Affairs. Mr. Donahue presents this testimony on behalf of Governor Thompson and the Director of the Department, Jay Hedges.]

As of June, 1987, Illinois had 312,852 small businesses with less than 500 employees, which represents 99.7 percent of all businesses known within the State. These small businesses account for 69.8 percent of all the business employment within the State. (Dunn & Bradstreet) In a 1982 survey of minority-owned and women businesses counted 16,214 black-owned businesses, 5,218 Hispanic businesses, 9,470 Asian American businesses, and 129,198 women-owned businesses.

To serve this wide range of business interests in the State, the Illinois Department of Commerce and Community Affairs has established an aggressive and innovative approach to providing needed services to its' small businesses.

Beginning in January of 1984, the Department became the first State in the nation to establish a small business development center program which was managed through a State Economic Development Agency. Since that time, many other state's have followed Illinois' lead by either establishing similar state managed programs or through the establishment of formal coordinated efforts with their state economic development agencies.

At this same time, the State established a network of procurement assistance centers and technology commercialization centers to offer specialized services to small businesses in the area of government contracts and technology development. These networks work in concert with the Illinois SBDC program and serve to offer a wide range of activities and services to the small business community.

In October of 1985, Governor Thompson created the Illinois Small Business Assistance Bureau, within the Department of Commerce and Community Affairs. As its first Deputy Director, I brought to the Department a philosophy representative of the Illinois small business community, through my past professional activities of representing small business interests through directing the Illinois Office of the National Federation of Independent Businesses, in addition to other business/legislative activities.

In my role as the Deputy Director for Small Business Programs, the Department immediately began a concerted and direct effort to bring together the myriad of small business programs which until then were fragmented throughout the Department.

The results of these efforts has been to develop what we refer to as Illinois' ultimate small business delivery system which has resulted in the definition of the SBDC as the major delivery arm for business services on the local level and the consolidation of other small business programs under the SBDC umbrella.

Currently, the Department manages the operations of fifty-two small business development centers, sixteen procurement assistance centers and sixteen technology commercialization centers.

The Illinois SBDC represents a statewide partnership between the U.S. Small Business Administration, the Department of Commerce and Community Affairs, the U.S. Department of Defense, the Illinois Community College Board, Illinois Universities and Community Colleges, local Chambers of Commerce, local economic development organizations and the private sector. Since its inception in 1984, the SBDC has provided in-death counseling to over 15,000 small business clients; has developed over 1,000 individual training programs which provided training to more than 20,000 small business owners, managers and employees.

In terms of economic impact, the Illinois SBDC program has helped small businesses create over 10,000 new jobs; retain over 19,000 jobs; and receive over \$56 million in financing. Additionally, the SBDC has helped in the creation of over 1,400 new businesses.

As can be seen, the small business development center program in Illinois plays a vital and crucial role in our ongoing efforts to provide needed assistance to our small businesses. To demonstrate the commitment that the State of Illinois has to the SBDC program, the last three years have resulted in a total state appropriation of over \$5.5 million in SBDC grants and administrative funding. Coupled with a total of over \$3.3 million in federal funding, Illinois has been able to create a solid statewide network of SBDC's which provide a highly efficient, decentralized delivery of needed business services to our over 300,000 small businesses.

We realize however, that we cannot continue to rely solely upon federal and state funding assistance. It is for this reason that we are embarking upon an aggressive effort to bring local and private resources into the program. Examples of this initiative include our recently initiated Governor's Small Business Roundtables, chaired by Lt. Governor George Ryan. These roundtables are organized to address the concerns of small businesses, in addition to bringing local small businesses, local governments, local economic development leaders and the private sector into the developmental process of Illinois' ultimate small business delivery system.

Over the past three years, the Department has been working with the civic committee of the Commercial Club of Chicago, which represents the major corporations within the State of Illinois to establish a "private sector" type of an SBDC. We are proud that the Commercial Club has now developed and implemented the "Chicagoland Enterprise Center", which brings corporate counseling and training resources to the clients of the Illinois SBDC program, at no charge. The center is funded totally with private funding of over \$250,000 per year. This project represents our major private sector initiative to date, and is serving as a model for other areas of the State to emulate. Additionally, we are presently working with IBM Corporation on an initiative which could bring a major corporate contribution to the Illinois SBDC program, in addition to having application to the other SBDC's in the nation. As can be seen, we are reaching out to non-traditional areas of support in the private sector to further the development of our ultimate small business delivery system.

We in Illinois are highly supportive of the efforts of Congress and the administration to continue to decentralize the operations of the small business development center program; to continue to increase the appropriations of this important eco-

conomic development program; and to continue to recognize the importance that the SBDC program can play in the critical areas of international trade assistance and rural development.

U.S. SENATE,
Washington, DC, October 19, 1987.

HON. DALE BUMPERS,
Chairman, Senate Small Business Committee,
Washington, DC.

DEAR DALE: Earlier this year I wrote a letter of comment to the Small Business Administration (SBA) concerning regulations the agency had proposed for the Small Business Development Center (SBDC) program. At the time I was particularly concerned that the regulations destroyed the partnership relationship between SBA and the SBDC, which we mandated as part of the program's 1984 reauthorization bill. I was also concerned that provisions in the proposed regulations exceeded the requirements of OMB circulars.

After reviewing SBA's revised regulations which supposedly incorporate comments submitted to the agency, I find that these newly proposed regulations are worse than those they proposed last year. They flagrantly disregard the Congressional intent behind the program and attempt to force states to appropriate dollars whose use would be controlled and directed by SBA. That is unacceptable.

The Oklahoma SBDC has made tremendous strides to improve its assistance to the State's small businesses. These newly proposed regulations only serve to impair the efforts of the SBDC and to hurt Oklahoma's small businesses. I ask that you work to block these regulations this year before they become final.

Thank you for your consideration of this matter.

Sincerely,

DAVID L. BOREN,
U.S. Senator.

U.S. SENATE,
COMMITTEE ON ARMED SERVICES,
Washington, DC, October 19, 1987.

HON. DALE BUMPERS,
Chairman, Committee on Small Business,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: I regret that I was unable to attend the Committee's oversight hearings on the Small Business Administration's (SBA) Small Business Development Center (SBDC) program. However, I would like to inform you of my strong support of the program.

The Georgia SBDC is headquartered at the University of Georgia in Athens. The Center and its network of sixteen subcenters located throughout the state are providing an excellent service to the people of Georgia, particularly the state's small business community. The Georgia program is an exemplary one and it should remain unhindered by unnecessary regulation.

It is my understanding that a partial focus of the oversight hearings was the recent promulgation of SBDC regulations by the SBA. I would urge our Committee to proceed with caution as we consider these regulations. The present working relationship that exists between Georgia SBDC personnel and the SBA is a good one. The prospect of increased control through regulation by the SBA only threatens of harm that relationship. One particular example of potential harm concerns the District Director provision contained within the regulations. The regulations would require that the SBDC District Directors be full-time employees. At present, a number of Georgia's SBDC directors also teach at the college level. The new regulatory constraints would severely limit the flexibility the system's directors now enjoy and could also hinder the program's ability to attract top business professionals.

The SBDC program in its present form is a good government program. In my view, increased regulation which would shift the balance in the present SBA/SBDC partnership is not desirable. Such a shift in control could operate to compromise the innovativeness of the SBDC program which, in its present form, provides needed flexibility to the various state Centers.

Thank you for your attention to this matter.

Sincerely,

SAM NUNN.

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